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COMMONWEALTH OF PENNSYLVANIA

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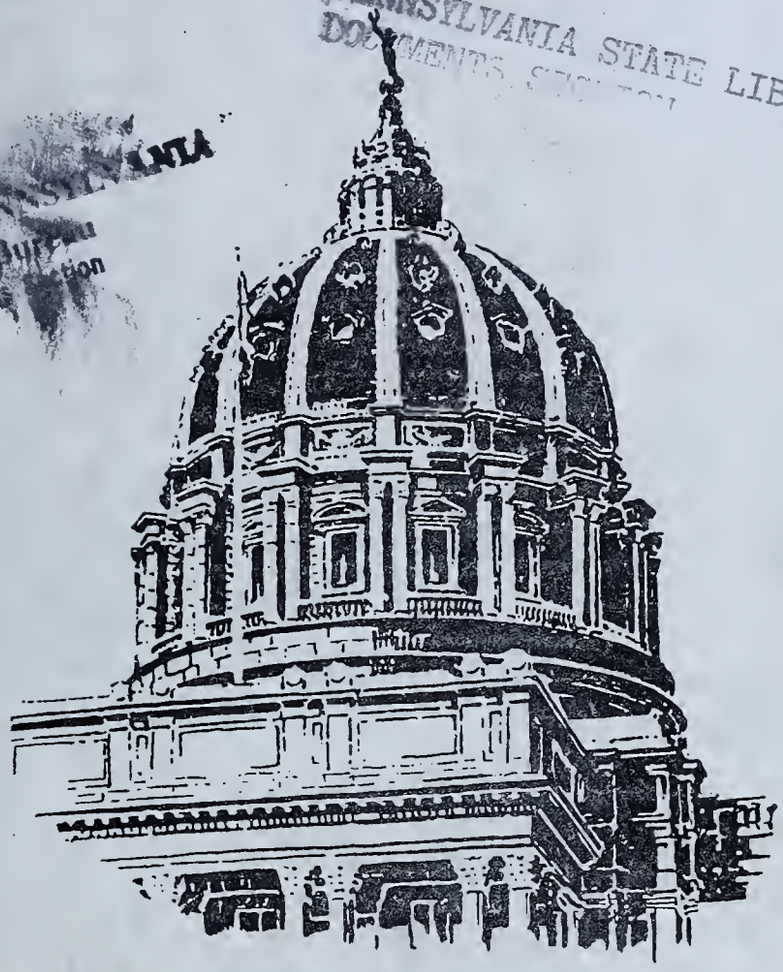

THE TAX PROBLEM

SECOND REPORT OF THE TAX STUDY COMMITTEE

JANUARY 1955

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COMMONWEALTH OF PENNSYLVANIA

Alfred G. Buehler, Chairman
Albert Coons
Leonard A. Drake
E. M. Elkin, ESQ
Hon. Wrayburn B. Hall

PENNSYLVANIA TAX STUDY COMMITTEE
Room 416
Main Capitol Building
HARRISBURG, PENNSYLVANIA

Hon. William J. Lane
G. Franklin McSorley
Hon. Albert S. Readinger
Wesley Reitze
Hon. T. Newell Wood

January 15, 1955

The enclosed report is being sent to you on behalf of the Pennsylvania Tax Study Committee, a bipartisan Committee appointed by Governor Fine on April 16, 1952, to appraise the State tax problem and recalled by him on July 2, 1954, to reappraise this problem in the light of the changing fiscal outlook.

The first report of the Committee was completed and published on May 29, 1953. This, the second report, is essentially a revision of the first report. Where possible the data have been brought up-to-date and certain additional information has been included.

Time has not been available to examine all phases of the serious State tax problem. The Committee has endeavored to obtain information on major tax problems, however, and will supplement the present report with some further material in an Appendix in a separate volume.

As in the previous report, the Committee has refrained from proposing recommendations on the particular tax measures to be selected in raising the substantial new revenues which the Commonwealth will apparently require.

It is hoped that the second report of the Pennsylvania Tax Study Committee will be helpful in the analysis of the State tax system and its burdens in relation to the tax systems of other leading states.

Alfred G. Buehler

Alfred G. Buehler
Chairman

THE TAX PROBLEM

Second Report of the Tax Study Committee

ERRATA:

1. Page 1, under the heading "REVENUE AND EXPENDITURE TRENDS" the second paragraph and the first line should read as follows:

   According to the latest budget estimates, further funds will have to ...

2. Page 41, the first column, second line should read as follows: $48,015(2)

3. Page 41, the first column, third line should read as follows: $91,159(2)

4. Page 41, the following footnote should be added at the bottom of the page:

   (2) Estimated.

5. Page 51, the second column, third line should read as follows: $142,401(2)

6. Page 51, the following footnote should be added at the bottom of the page:

   (2) This includes an unknown amount for personal gross income.

7. Page 52, the caption of the fourth column should read as follows: Pa.

8. Page 66, footnote (3) at the bottom of the page should read as follows:

   (3) Estimated gross income tax on individual earnings from personal services supplies estimated revenues of $48,015,000. This sum is included in the total General Sales Tax Revenues.

9. Page 80, the twenty-fourth line should read as follows:

   betting in the fiscal year 1953.

10. Page 83, the third line of Table 37, first column should read as follows: 26.29(1)

11. Page 83, a footnote to read as follows should be added at the bottom of the page:

    (1) Includes collections from the individual gross income tax.

12. Page 84, the last paragraph under the heading "COLLECTION FROM MAJOR STATES TAXES IN 1954," first line should read as follows:

    General sales, or retail sales taxes, supplied 5.64 per cent of the ...

13. Page 89, the second paragraph, last line should read as follows:

    amounted to $5.9 million in the fiscal year 1954.

14. Page 116, the third line of the heading should read as follows:

    Selected States; January 1, 1955

(over)

15. Page 130, Table 55, the first line and the last column should read as follows:

$262,393 instead of $181,757

16. Page 130, the footnote (b) should read as follows:

(b) Data are for fiscal years. Include ...

17. Page 140, the first column and the thirteenth line of the table should read as follows: 1,534 (3)

18. Page 140, the following footnote should be added to the bottom of the page:

(3) Collections from the corporate loans tax.

19. Page 141, under the heading "NEW LOCAL TAXES", the second paragraph and the fourth line should read as follows:

of "Act 481". Non-property taxes provided $38.2 million in revenue in the fiscal year 1952.

20. Page 143, the third line of the heading should read as follows:

THE CALENDER YEAR 1952 (1)

21. Page 150, the first line of the heading under Table 62, should read as follows:

STATE GENERAL SALES TAXES IN 1954

22. Page 152, the third line should read as follows:

ing in Connecticut and clothing, in general, in Pennsylvania. The nature ...

23. Page 153, under the heading "EXEMPTIONS AND TAX ADMINISTRATION", the second paragraph and the second line should read as follows:

equitable and acceptable to the citizens. The food exemption, particular- ...

24. Page 159, under the heading "VALUE ADDED TAX BASED LARGELY ON WAGES & SALARIES", the first paragraph and the second line should read as follows:

is necessarily the case because materials, supplies, fuel and other articles ...

COMMONWEALTH OF PENNSYLVANIA

THE TAX PROBLEM

SECOND REPORT

OF THE

TAX STUDY COMMITTEE

JANUARY 1955

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

"ALL TAXES

SHALL BE UNIFORM

ON THE

SAME CLASS

OF

SUBJECTS"

Pennsylvania Constitution

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

COMMONWEALTH OF PENNSYLVANIA

Alfred G. Buehler, Chairman
Albert Coons
Leonard A. Drake
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PENNSYLVANIA TAX STUDY COMMITTEE
Room 416
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Hon. William J. Lane
G. Franklin McSorley
Hon. Albert S. Readinger
Wesley Reitze
Hon. T. Newell Wood

January 15, 1955

Honorable John S. Fine,
Governor of Pennsylvania,
Harrisburg, Pennsylvania.

Dear Governor Fine:

The Tax Study Committee appointed by you on April 18, 1952, herewith submits its second report on "The Tax Problem of Pennsylvania".

Within the limitations of the resources at our disposal and the time available since you recalled us on July 2, 1954, to reappraise the tax problem, we have sought to accomplish these objectives:

1. To review the overall tax problem of the Commonwealth.
2. To compare the expenditures, taxes, and public debts of Pennsylvania and other leading states.
3. To show the relationships between state and local governments expenditures and taxes.
4. To appraise the major sources of revenue employed by Pennsylvania and the other states.
5. To relate our tax problem to the characteristic features of the Pennsylvania economy and the need for high level and increasing employment, production, and income.
6. To keep in mind the necessity for an equitable, adequately productive, and practicable system of taxation.

As in our first report, we have refrained from recommending any particular new revenue sources, believing that we can best perform our function by providing essential descriptive material and analyses of Pennsylvania tax burdens and the tax sources which appear to be available. It is planned to provide additional pertinent statistical material in a supplementary Appendix.

Respectfully submitted,

Alfred G. Buehler

Alfred G. Buehler,
Chairman.

MEMBERS OF THE TAX STUDY COMMITTEE

Alfred G. Buehler, Chairman
Albert Coons
Leonard A. Drake
E. M. Elkin
Honorable Wrayburn B. Hall
Honorable William J. Lane
G. Franklin McSorley
Honorable Albert S. Readinger
Wesley G. Reitze
Honorable T. Newell Wood

THE DUTIES OF THE TAX STUDY COMMITTEE

The original duties of the Tax Study Committee were set forth in the letter of Governor John S. Fine on April 18, 1952 to members of the Bipartisan Committee announcing their appointment. In this letter Governor Fine declared:

"The duty of the Committee shall be to make a comprehensive analysis of the existing tax system, including the taxes adopted by the last Session of the Legislature. It will list the good and bad features of all taxes and so report. The Committee also will consider all other possible sources of revenue. I am asking the Committee in its deliberations to keep in mind a tax system best suited for all interests within the Commonwealth."

On May 29, 1953, the Tax Study Committee submitted its first report to Governor Fine. It provided a comprehensive factual survey of the Pennsylvania Tax System, its burdens, and possible new sources of revenue.

On July 2, 1954, Governor Fine recalled the Tax Study Committee to reappraise the state tax system in relation to growing revenue requirements for the public schools and other essential services. The Tax Study Committee was again asked to "keep in mind a tax system best suited for all interests within the Commonwealth".

THE PURPOSE OF THE SECOND TAX REPORT

The second report of the Bipartisan Tax Study Committee supplements its first report of 1953 and utilizes more recent information concerning comparative state government expenditures, taxes, and economic activity in Pennsylvania and other states, with a view to indicating the stresses and strains of the present tax system and the possible sources of new revenue which will be appropriate in our economy.

After the first report of the Tax Study Committee was published the General Assembly enacted a retail sales tax at a rate of one per cent for a two year period beginning on September 1, 1953. Now that tax will expire unless it is reenacted. Whether it remains or not, the Commonwealth will need great additional revenues to offset the deficit of the 1953-1955 biennium, provide mandated increases in public school subsidies, and supply the larger funds demanded to support other necessary state services.

The Tax Study Committee has not had the time or the facilities to complete all the phases of the study of the state tax system which it had originally contemplated in preparing to publish its report in April 1955. The financial crisis of the state makes it desirable to submit the present report at this time, with its summary appraisal of the major problems confronting the Commonwealth and suggestions concerning possible sources of additional revenues.

The Pennsylvania tax structure is, in certain respects, unique. Its burdens concentrate on certain sources and on certain parts and activities of our economy. As a great industrial, commercial, and financial state, Pennsylvania must meet the tax and other types of competition provided by other states if she is to maintain and expand her markets, employment, and income to provide a rising level of living for her people.

The tax system must, therefore, be adapted to the needs of Pennsylvania and must at the same time be conducive to a dynamic and expanding economy, providing what is known as "a favorable tax climate." It must also be equitable in its burdens and adequate in its revenue yield.

In preparing this report, the Tax Study Committee has realized that much of the "spade work" had been done in its first report, particularly in the intensive study of comparative corporate tax burdens among the leading states and the analysis of the burdens of retail sales taxes on consumers. The present study extends the survey of current financial and economic trends in order to bring as much of the general data up to date as possible and supplements the earlier study, to which the reader is referred for further discussion and analysis of many of the problems arising from the existing taxes.

As in its first report, the Tax Study Committee has refrained from offering proposals to raise the new revenues needed by the Commonwealth. Nor has it attempted to judge how much additional revenue is required. Rather, it has endeavored to provide the background required for decisions on major tax policies, assembling all the essential facts it could within the time available.

ACKNOWLEDGMENTS

In the preparation of this report the Tax Study Committee has received great assistance and much information from numerous sources for which it is deeply appreciative.

Continuing and extensive aid has been obtained from the State Budget Bureau, the Department of Revenue, the Department of Internal Affairs, the Liquor Control Board, and other State Agencies.

The work of Mr. Nevin A. Schall and Mr. Merlin Beachell of the State Budget Bureau and Mr. Lloyd S.. Persun and Mr. Michael Kocan of the Division of Tax Research, Statistics, and Methods in the Department of Revenue has been particularly outstanding.

The statistical services of the U. S. Bureau of the Census, U. S. Treasury, U. S. Bureau of Labor Statistics, and the Bureaus of Tax Research and Statistics of California, Ohio, New York and other states have been very helpful.

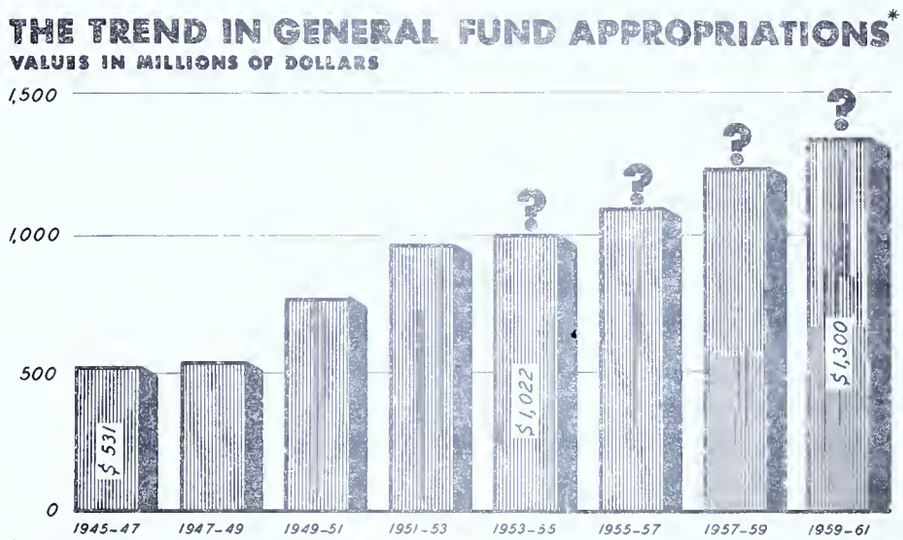
Invaluable data have also been secured from the reports of various Agencies of the Federal and State Governments and private research organizations.

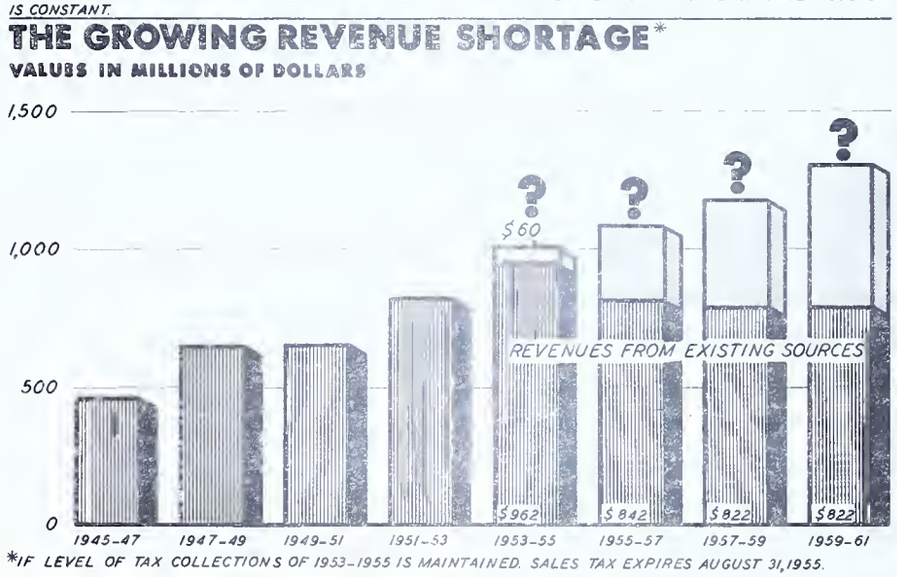
The reports of previous Tax Study Committees of the Commonwealth of Pennsylvania and data prepared by the Staff of the Joint State Government Commission have been of great value, as have the reports of Tax Study Committees in other States.

To the many persons who have helped make this report possible, the Tax Study Committee wishes to express its gratitude.

PENNSYLVANIA'S FISCAL PROBLEM

THE GROWING GAP
BETWEEN REVENUES AND EXPENDITURES





WHAT NEW TAXES SHALL BE IMPOSED?

SOME POSSIBLE NEW TAX SOURCES	(Under Favorable Conditions)	ESTIMATED ANNUAL YIELD
1. Restore soft drink tax		$14 million
2. Impose a 1 percent tax on intrastate receipts of cooperative associations		$ 1 million
3. Tax cigars, smoking and chewing tobacco, and snuff at federal tax rates		$ 4 million
4. Tax amusements at rate of 10 percent		$ 9 million
5. Tax pari-mutuel betting		$20 to $25 million
6. Impose $5 per capita tax on adults		$25 million
7. Tax meals costing over $1 at 5 percent ...		$10 million
8. Tax hotel room rentals exceeding $2 a day.		$3.5 million
9. Impose 14 mills tax on gross receipts from natural and artificial gas sales		$ 2.6 million
10. Tax domestic and commercial electricity and gas bills at 3.5 percent		$14 million
11. Tax telephone and telegraph service at 5 percent		$ 9 million
12. Tax net income of unincorporated businesses and professions at 1 percent		$20 million
13. Tax gross receipts of retailers with an occupation tax at a rate of 1 percent without exempting food and clothing ..... (Additional revenue would be raised if wholesaling, manufacturing and other levels of business activity were also taxed.)		$100 million
14. Tax individual gross income at 1 percent .		$142 million
15. Tax individual gross income in general at 1 percent and income from property and other investments at 2 percent		$157 million

Note: Revenues are in approximate amounts. These revenue sources are appraised in appropriate sections of the Tax Study Committee Report. Until the Constitution is amended, a graduated net income tax will not be available.

REPORT OF THE TAX STUDY COMMITTEE

COMMONWEALTH OF PENNSYLVANIA

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Chapter I

THE GENERAL FUND REVENUE PROBLEM

General Fund expenditures in Pennsylvania are rising faster than General Fund revenues. Each succeeding biennium brings a new revenue crisis. Great gaps between revenues and expenditures will continue unless the rapid increase in expenditures is halted and an adequate General Fund tax structure is established.

The General Fund finances public assistance, education, health, welfare and certain other services. The most costly of these services, as in other states is education. The policy of transferring an even greater part of the burden of school financing from the local school districts to the State, has caused substantial increases in state expenditures and taxes in each biennium. Currently education accounts for approximately one-half of the General Fund budget. Other state expenditures, as well as those for education, have also been rising.

In the fiscal year 1954, $96.6 million were spent for salaries out of the General Fund for the executive, legislative and judicial branches of the government. This represents approximately one-sixth of the total operating expenditure. In 1950, $82.5 million were spent or 15 percent of the total operating expenditures.

REVENUE AND EXPENDITURE TRENDS

The TAx STudy Committee has received data from the State Budget Bureau indicating the General Fund appropriations for the bienniums 1945-1947 to 1953-1955. In this period, biennial appropriations have increased from $531 million to $1,004 million.

According to the lates budget estimates, further funds will have to be appropriated to provide for needed services in the remainder of this biennium, as follows:

Public Assistance	$13,500,000
Payments to School Authorities	2,100,000
Support of Public Schools	9,300,000
Transportation (School Children)	1,200,000
All other	300,000
Total	$26,400,000

Table I and Chart I show the estimated distribution of General Fund appropriatiores for 1953-1955.

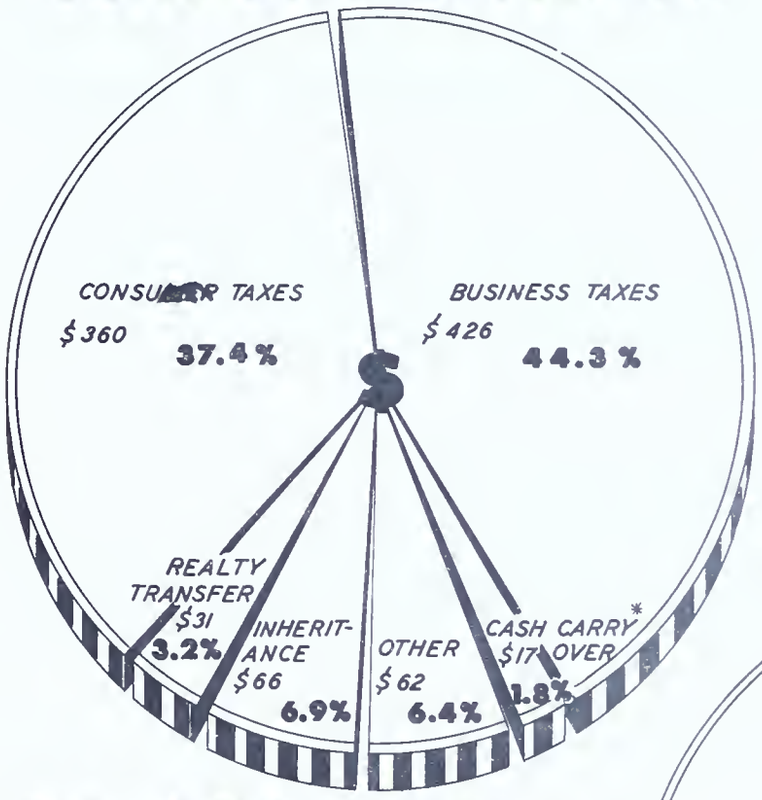
The State Budget Bureau has also supplied a record of the bienneal revenues from 1945-1947 through 1951-1953 and estimates of the revenues to be collected in 1953-1955 from existing sources. The revenue data are summarized in Table 2 and Chart.

As the State Budget Bureau sees it at this time, the General Fund situation in 1953-1955 is as follows:

CHART I

THE GENERAL FUND DOLLAR
1953-1955 BIENNIUM

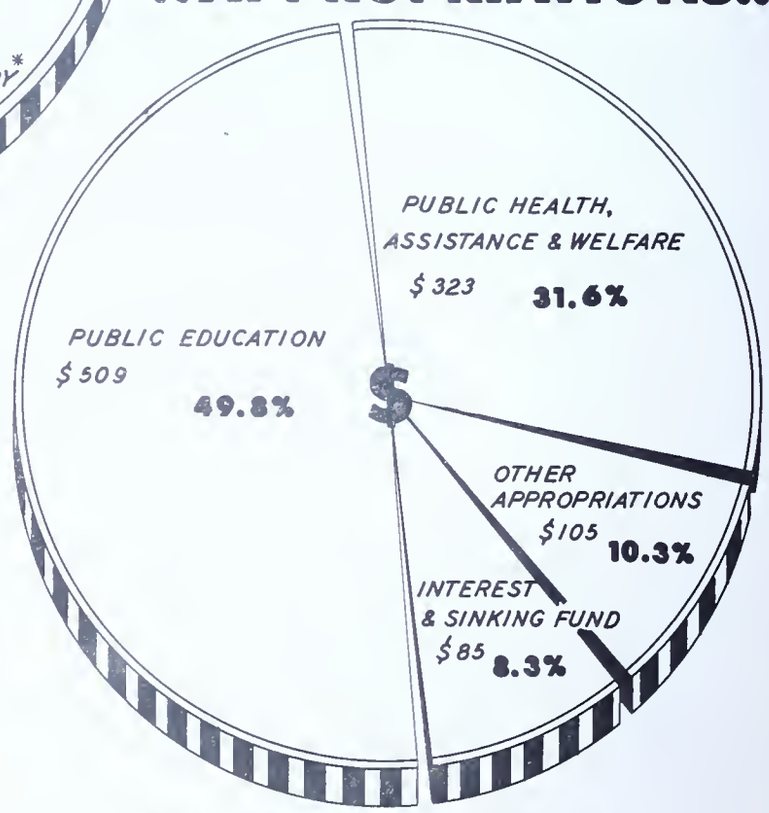
..ESTIMATED REVENUE..



$962 MILLION

*CASH CARRY OVER FROM PREVIOUS BIENNIUM.

ESTIMATED ..APPROPRIATIONS..



$1,022 MILLION

Table 1

STATE GENERAL FUND APPROPRIATIONS*

Biennial Periods 1945-1955
(In thousands)

	Actual				
	1945-1947	1947-1949	1949-1951	1951-1953[1]	1953-1955
EXECUTIVE DEPARTMENTS - TOTAL[2]	$409,830	$555,139	$712,403	$792,083	$907,828
Public Instruction	172,597	240,632	297,726	416,534	508,442
Public Assistance	111,620	146,490	196,100	133,515	120,035
Welfare	67,922	94,584	111,095	132,656	166,029
State Institutions	55,673	78,856	91,870	109,993	145,395[9]
Other	12,249	15,728	19,225	22,663	24,357
Health	13,789	20,249	23,815	30,877	37,195
Labor and Industry	4,738	5,629	7,448	8,310	7,583
Agriculture	4,466	5,125	6,270	6,571	7,330
Military Affairs[2]	3,147	5,134	7,408	6,958	5,293
Forests and Waters[2]	3,172	3,698	4,050	7,638	7,463
Property and Supplies[2]	4,392	5,412	7,862	8,541	7,837
Revenue Department	3,571	4,517	5,050	6,388	11,814
Functions Independent of the Governor[3]	4,495	5,318	6,141	6,017	7,071
Other Departments, Commissions, etc.	15,921	18,351	39,438[6]	28,078	21,736
Legislative[4]	2,524	3,494	4,064	4,562	3,514
Judicial[4]	5,483	6,325	6,617	7,292	7,650
Construction and Land Purchase	54,835	17,948	17,702	9,348	8,683
Retirement of State Employes	3,091	3,911	4,643	6,916	9,472
Interest and Sinking Fund	55,614[5]	11,991	20,506[7]	82,834[7]	85,411
Total Appropriations	$531,377	$598,808	$765,935	$903,035	$1,022,558

Source: State Budget Bureau.

*Exclude federal aid and "specific receipts appropriated for special purposes." Additional and deficiency appropriations are included in the biennium to which they apply.

[1]Include recommended deficiency appropriations of $12.3 millions.
[2]Exclude appropriations for construction and land purchase.
[3]Lieutenant-Governor, Auditor General, Treasury, Department of Internal Affairs.
[4]Includes allocation from appropriation to Property and Supplies.
[5]Includes State Authority bond redemptions of $48,870,240.
[6]Includes $15,000,000 for housing program.
[7]Includes appropriation for General State Authority rentals.
[8]Includes cost of living salary increase.
[9]Includes $19,463,000 transferred to Justice Department.
[10]Includes estimated deficiency appropriations as of November 19, 1954.

Table 2

STATE GENERAL FUND REVENUES*

Biennial Periods 1945-1955
(In thousands)

	1945-1947	1947-1949	1949-1951	1951-1953	1953-1955[1]
Total Taxes	$340,110	$535,237	$565,428	$718,562	$886,596
Cigarettes	37,871	78,476	86,139	89,367	87,750
Malt Beverages	23,195	48,721	46,278	45,842	45,000
Liquor	30,975	37,764	36,734	42,843	42,200
Soft Drinks	.....	26,930	27,393	.....	.....
Liquid Fuels	1,208	.....	.....	.....	.....
Corporate Net Income	93,600	152,994	154,867	271,205[2]	236,057[2]
Capital Stock-Franchise .	62,920	87,381	104,100	114,652	117,750
Public Utility-Gross .... Receipts	14,337	18,459	20,829	28,982	27,000
Insurance Companies- Gross Premiums	18,745	20,196	21,449	29,913	27,295
Corporate Excise and Bank Shares	10,502	11,203	14,455	14,824	15,099
Corporate Loans	4,541	3,811	3,268	3,105	3,050
Inheritance	38,780	46,793	46,598	59,284	65,595
Realty Transfer Tax	.....	.....	.....	18,513	31,300
Sales Tax for School Purposes	.....	.....	.....	.....	103,000
Miscellaneous	3,436	2,509	3,318	32	.....
Liquor Store Profits	59,000	77,000	80,000	87,600	85,500
Other Revenues-Total	33,447	35,230	41,782	55,797	58,244
Licenses, Fines, Etc....	10,885	11,996	13,196	14,792	15,497
Institutional Receipts .	15,802	18,133	20,311	24,793	28,877
Miscellaneous	6,760	5,101	8,275	16,213	13,870
Total Revenues	$432,557	$647,467	$687,210	$861,960	$944,840[3]

Source: State Budget Bureau.

*Exclude Federal aid, specific receipts appropriated for special purposes, and unappropriated surpluses.
[1]Estimated as of November 19, 1954.
[2]Includes corporate income tax under Act 470 of 1951 (Loophole Act).
[3]Does not include $17,000,000 surplus available at beginning of biennium.

Table 3

THE GENERAL FUND APPROPRIATION PROCESS*

(In thousands)

Biennial Periods	Requests from Departments	Governor's Original Recommendation	Appropriations Voted by Legislature	Approved by Governor	Deficiency and Additional Appropriations[2]	Final Appropriations
1945-1947	$ 391,533	$ 415,004	$ 454,757	$ 443,187	$ 33,505	$ 476,692
1947-1949	602,313	521,485	575,870	559,698	21,162	580,860
1949-1951	711,885	678,219	734,568	731,694	16,539	748,233
1951-1953	888,339	845,894	888,077[1]	881,414	12,267	893,681
1953-1955	1,062,526	997,800*	1,031,577	1,014,751	?	?

Source: State Budget Bureau.

*Excludes appropriations for construction and land purchase, which are included in the $1,003.9 million budget.

[1]Includes $10,563,000 in additional recommendations by the Governor after submission of the budget, $8,000,000 of which was for cost-of-living increase in salaries.

[2]Deficiency appropriations provide funds to carry to completion those functions for which funds appropriated by the previous session of the Legislature were insufficient.

Additional appropriations provide funds for functions not contemplated at the time of the previous session or to increase the funds available for contemplated functions. Both types of appropriations are added to and considered as part of the appropriations of the closing biennium.

Estimated appropriations	$ 1,022 million
Estimated revenues	$ 962 million
Estimated deficit	$ 60 million

General Fund revenues are lagging behind expectations chiefly because the sales tax estimate proved to be much too high. Instead of returning $135 million in the present biennium, the sales tax is expected now to yield only $103 million, a shortage of $32 million. The corporate income tax revenue is expected to fall $31 million below the estimate and the cigarette tax $2 million.

The Tax Study Committee is presenting the latest revenue and expenditure estimates of the State Budget Bureau to illustrate as adequately as possible the General Fund outlook at this time. As other studies are conducted by the new Administration and the General Assembly and new light is shed upon budget needs and revenue trends, the details of the story may be modified. Meanwhile, economic and financial conditions may also change somewhat and forecasts may have to be revised. The fundamental situation appears to be clear, however. State expenditures are clearly tending to outdistance General Fund revenues from present sources and substantial new taxes must be found if the upward trend in expenditures is not halted. There is also a need for additional taxes to offset the deficit of the current biennium.

THE COSTS OF GOVERNMENT ARE GENERALLY RISING

Taxes are the cost of government and its many services. They have been advancing because governments -- Federal, state, and local -- have been spending ever increasing sums.

It is interesting to observe how General Fund appropriations have increased in recent bienniums. As indicated in Table 3, the General Assembly has customarily voted larger appropriations than the Governor has requested. He generally pares down agency requests and may also eliminate some appropriations voted by the General Assembly. But powerful spending pressures have operated to force expenditures upward.

The cost of government has long been advancing throughout the world. The primary factors are:

1. Increasing populations
2. Growing public wants
3. Wars - past, present and possible future
4. Rising prices

It has long been noted that modern governments tend (1) to expand existing services and spend more money on them and (2) to keep adding new services.

The expenditures of the 48 state governments increased from $3.6 billion in 1940 to $11.7 billion in 1953, as reported by the Bureau of the Census. They thus increased 226.3 per cent. In this period annual state government expenditures in Pennsylvania rose from $323 million to $669 million, or 107.4 per cent. Expenditures here, as in other states, declined during the Second World War as public construction suffered from shortages

Table 4

TOTAL EXPENDITURES AND REVENUES OF 48 STATES
Including Veterans' Bonus Payments
(In millions)

Fiscal Year	Expenditures	Revenues	Excess or Deficiency (--) of Revenue over Expenditure	Percent of Increase or Decrease (--)over 1940 Expenditures	Revenues
1940	$ 3,592	$ 3,732	$ 140		
1942	3,672	4,346	674	2.2%	16.4%
1944	3,521	4,552	1,031	-1.9	21.9
1946	4,374	5,538	1,164	21.7	48.3
1948	7,695	7,685	-10	114.2	105.9
1950	9,722	9.010	-712	170.6	141.4
1952	10,922	11,129	207	204.0	198.2
1953	11,722	11,939	217	226.3	219.9

TOTAL EXPENDITURES AND REVENUES OF PENNSYLVANIA

1940	$ 323	$ 295	$ -28		
1942	291	324	33	-9.9%	9.8%
1944	224	304	80	-30.6	3.0
1946	254	304	50	-21.3	3.0
1948	416	441	25	28.7	49.4
1950	779	519	-260	141.1	75.9
1952	652	639	-13	101.8	116.6
1953	670	701	31	107.4	137.6

Source: U. S. Bureau of the Census, "Revised Summary of State Government Finances, 1942-1950"; "Compendium of State Government Finances, 1952 and 1953".

of materials and manpower. The end of the war brought a great surge in state expenditures over the country in the effort to catch up on needed construction of public works and repairs and to meet the greater demands of the growing population. Inflationary pressures were also forcing costs upward.

EXPENDITURES IN LEADING STATES

The state government expenditures, taxes, and debts of Pennsylvania and fourteen other leading states with competitive economies will be compared in this report in an effort to provide a broad background for appraising the Pennsylvania tax problem. For purposes of comparison, the latest data from the U. S. Bureau of the Census will be utilized. Data are not available, unfortunately, to show the total local government expenditure trends in these states, their amounts, and their distribution. In a subsequent chapter, however, it will be possible to compare the total state and local taxes of these states.

Over the period 1940 to 1953, annual Pennsylvania state expenditures increased 107.4 per cent, as previously noted. Among the 15 generally comparable states, Pennsylvania ranked fourteenth in the rate of increase of the amount expended. The expenditures of the 48 states increased 226.3 per cent.

Per capita state expenditures rose in Pennsylvania from $32.51 in 1940 to $62.82 in 1953, an increase of 93.2 per cent. In percentage increase, Pennsylvania ranked thirteenth in the group of fifteen states. Per capita expenditures for the 48 states increased 171.7 per cent.

Certain other comparisons of expenditures in Pennsylvania and other leading states in 1953 will be helpful. In total state government expenditures we ranked fourth among the 48 states and also fourth among the fifteen states.

In per capita state government expenditures in 1953 Pennsylvania ranked twelfth among the fifteen states.

With respect to the ratio of state government expenditures to income payments, Pennsylvania and New York ranked tenth among the fifteenth states.

PENNSYLVANIA'S RANK IN EXPENDITURE FOR EDUCATION

Since education is the most costly General Fund service, it will be of interest to note how Pennsylvania ranks in this area, using U. S. Census Bureau data. In total state government expenditures for education, the Pennsylvania outlay of $226 million was fourth among the 48 states and also among the fifteen states in the fiscal year ending in 1953.

Our per capita state government expenditures for education were $21.21, placing us ninth among the fifteen states.

The ratio of expenditures for public education to income payments

Table 5

PENNSYLVANIA STATE EXPENDITURES COMPARED
WITH PRICES

Fiscal Years
Including Veterans' Bonus Payments in Total but not in General Fund

	Expenditures (In millions)				Wholesale Prices	Consumers' Prices
Year	Total	Change over 1940*	General Fund	Change over 1940*	Change over 1940*	Change over 1940*
1940	$323	...	$244	...	...	...
1942	291	- 9.9%	196	- 19.7%	25.7%	16.4%
1944	224	- 30.6	180	- 26.2	32.3	25.4
1946	254	- 21.3	242	- 0.8	54.1	39.2
1948	416	28.7	294	20.5	104.3	71.6
1950	779[1]	141.1	400	63.9	101.7	71.6
1952	652[1]	101.8	420	72.1	118.3	89.4
1953	669[1]	107.4	465	90.5	115.4	90.9

Source: Total Expenditure data from U. S. Bureau of The Census, " Compendium of State Government Finances" for each year. General Fund Expenditure data from State Budget Bureau. Wholesale Price changes are bases on the wholesale price index of the U. S. Department of Labor. 1947-1949 = 100%. It is an index of national prices. Consumers' Price changes are based on the consumers' price index of the U. S. Department of Labor. 1935-1939 = 100%. It is an index of national prices. Population data are from the U. S. Bureau of the Census. They are estimates for years when the population is not enumerated.

Note: Census data have been reclassified. General Fund Expenditures are exclusive of federal aid.

* "Change over 1940" indicates PerCent Increase or Decrease (-) over 1940.

1 The Veterans' Bonus Payments were

1950	$187	million
1951	222	million
1952	15	million
1953	0.5	million

Table 6

PER CAPITA PENNSYLVANIA STATE EXPENDITURES

Fiscal Years

Including Veterans' Bonus Payments in Total but not in General Fund

	Expenditures Per Capita				Population	
Year	Total	Change over 1940[1]	General Fund	Change over 1940[1]	Size in Thousands	Change over 1940[1]
1940	$32.50	...	$24.55	...	9,937	...
1942	29.91	- 7.9%	20.15	- 17.9%	9,729	- 2.1%
1944	24.28	- 25.2	19.51	- 20.5	9,225	- 7.1
1946	25.99	- 20.0	24.77	0.9	9,771	- 1.7
1948	40.71	25.2	28.78	17.2	10,217	2.8
1950	73.95	127.5	37.97	54.6	10,533	5.9
1952	61.12	88.0	39.37	60.3	10,667	7.3
1953	62.82	93.2	43.63	77.7	10,656	7.2

Sources: See Table 5

* Downward trend in population from 1940 through 1945 due to movement of military personnel. U. S. Bureau of Census estimates include military personnel located within the United States, but exclude those overseas.

[1] "Change over 1940" indicates Per Cent Increase or Decrease (-) over 1940.

Note: Census data have been reclassified. General Fund expenditures are exclusive of federal aid.

CHART 2

PER CAPITA STATE EXPENDITURES, FISCAL YEARS 1940 & 1953

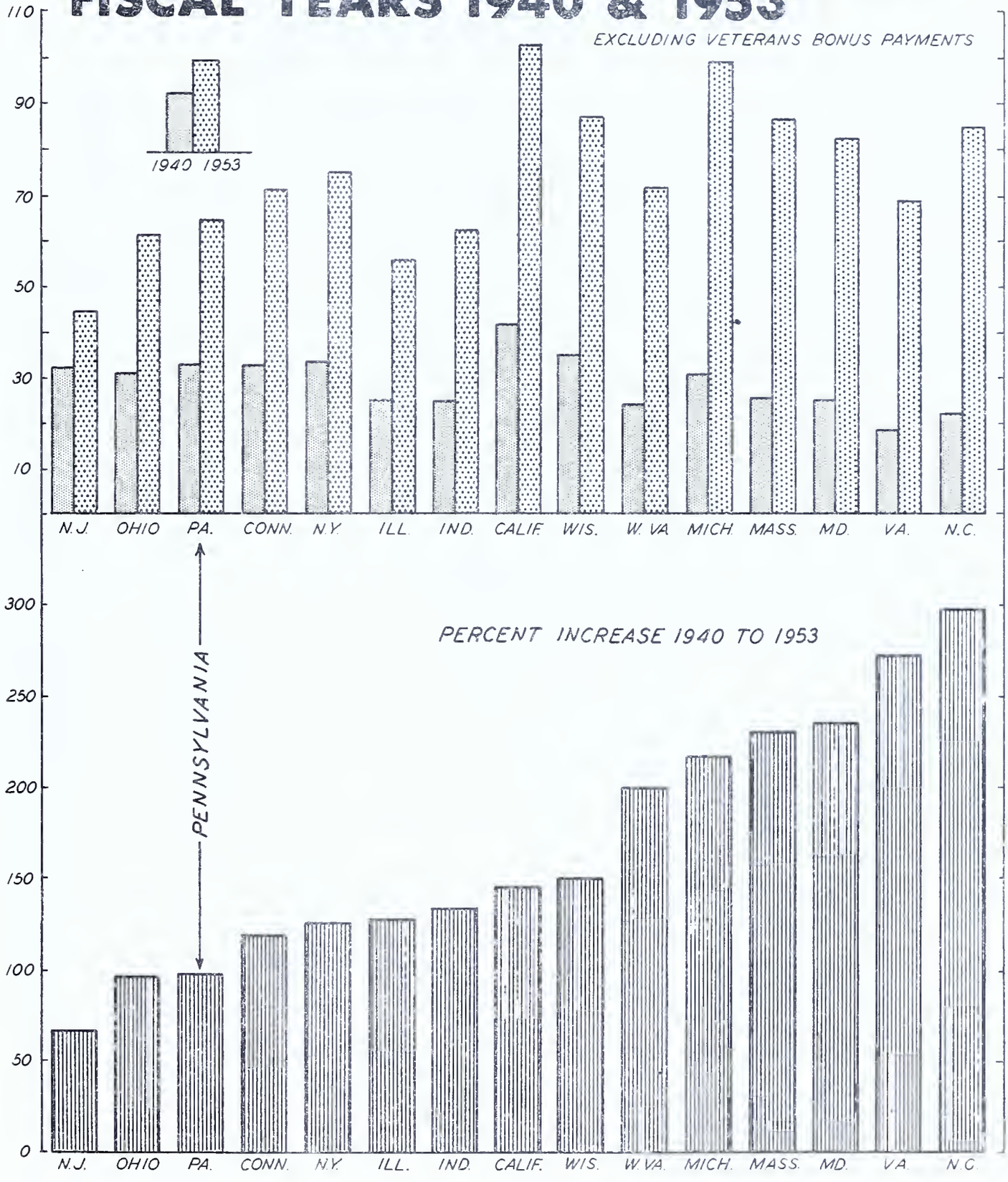


Table 7

TOTAL STATE EXPENDITURES
FISCAL YEARS 1940 and 1953
(Dollar figures in thousands)

State	1940	1953	Increase 1953 over 1940 Amount	Per cent
California	$ 288,791	$ 1,247,038	$ 958,247	331.8%
Connecticut	55,165	151,868	96,703	175.3
Illinois	195,130	508,050	312,920	160.4
Indiana	91,733	290,320	198,587	216.5
Maryland	44,503	206,588	162,085	364.2
Massachusetts	112,974	392,832	279,858	247.7
Michigan	164,415	674,844	510,429	310.5
New Jersey	103,702	208,129	104,427	100.7
New York	439,092	1,118,499	679,407	154.7
North Carolina	77,272	355,112	277,840	359.6
Ohio	213,745	498,756	285,011	133.3
Pennsylvania	323,019	669,379	346,360	107.4
Virginia	60,615	239,655	179,040	295.4
West Virginia	47,740	151,717	103,977	217.8
Wisconsin	93,914	302,297	208,383	221.9
PER CAPITA STATE EXPENDITURES				
California	$ 41.81	$ 102.30	$ 60.49	144.7%
Connecticut	32.28	70.24	37.96	117.6
Illinois	24.71	56.43	31.72	128.4
Indiana	26.76	70.19	43.43	162.3
Maryland	24.44	81.30	56.86	232.7
Massachusetts	26.17	80.17	54.00	206.3
Michigan	31.28	98.49	67.21	214.9
New Jersey	25.93	40.48	14.55	56.1
New York	32.58	73.43	40.85	125.4
North Carolina	21.63	84.69	63.06	291.5
Ohio	30.94	59.60	28.66	92.6
Pennsylvania	32.51	62.82	30.31	93.2
Virginia	18.26	67.57	49.31	270.0
West Virginia	23.80	78.33	54.53	229.1
Wisconsin	35.07	85.93	50.86	145.0

Source: U.S. Bureau of the Census, "Compendium of State Government Finances, 1951 and 1953" and "Financial Statistics of the States, 1940".
Census data have been reclassified.

CHART 3

PER CAPITA STATE EXPENDITURES
FISCAL YEAR 1953

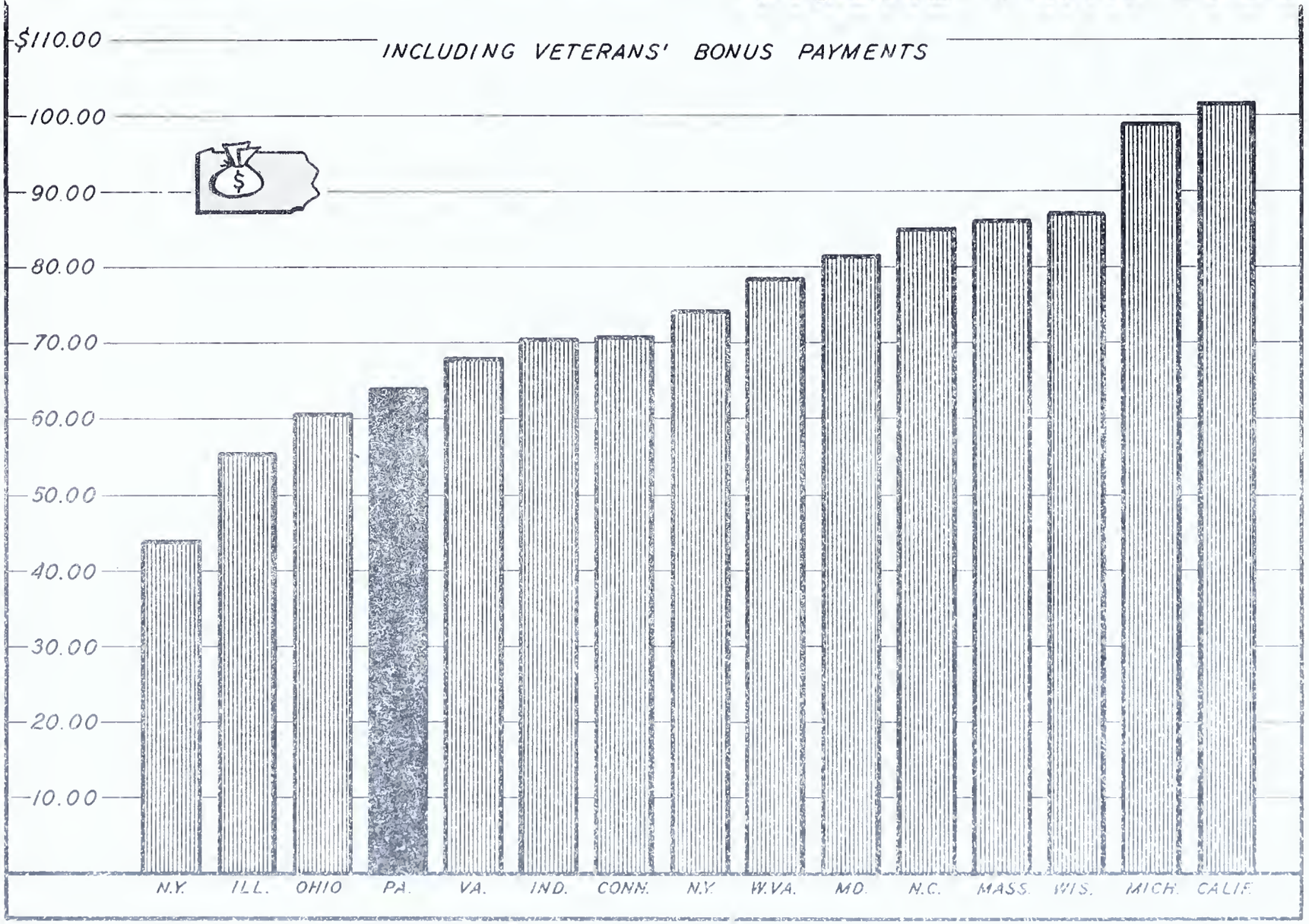


Table 8

TOTAL STATE EXPENDITURES
Fiscal Year 1953

Including Veterans' Bonus Payments

Total Expenditure (In thousands)			Per Capita Expenditures			% of Total Income Payments to Individuals in State		
Rank	State	Amount	Rank	State	Amount	Rank	State	PerCent
1st	California	$1,247,038	1st	California	$102.30	1st	North Carolina	7.7%
2nd	New York	1,118,499	2nd	Michigan	98.49	2nd	West Virginia	6.2
3rd	Michigan	674.844	3rd	Wisconsin	85.93	3rd	Wisconsin	5.0
			4th	North Carolina	84.69	4th	Virginia	5.0
4th	PENNSYLVANIA	669,379	5th	Maryland	81.30	5th	California	5.0
			6th	Massachusetts	80.17	6th	Michigan	4.9
5th	Illinois	508,050	7th	West Virginia	78.33	7th	Massachusetts	4.4
6th	Ohio	498,756	8th	New York	73.43	8th	Maryland	4.4
7th	Massachusetts	392,832	9th	Connecticut	70.24	9th	Indiana	3.8
8th	North Carolina	355,112	10th	Indiana	70.19			
9th	Wisconsin	302,297	11th	Virginia	67.57	10th	PENNSYLVANIA	3.4
10th	Indiana	290,320						
11th	Virginia	239,655	12th	PENNSYLVANIA	62.82	11th	New York	3.4
12th	New Jersey	208,129				12th	Connecticut	3.2
13th	Maryland	206,588	13th	Ohio	59.60	13th	Ohio	3.0
14th	Connecticut	151,868	14th	Illinois	56.43	14th	Illinois	2.7
15th	West Virginia	151,717	15th	New Jersey	40.48	15th	New Jersey	1.9

Source: U. S. Bureau of the Census, "Compendium of State Government Finances, 1953."

Note: See note on Table 7.

Table 9

STATE EXPENDITURES FOR EDUCATION
Fiscal Year 1953

Total Expenditures (In thousands)

Rank	State	Amount
1st	California	$494,972
2nd	New York	354,015
3rd	Michigan	270,976
4th	Pennsylvania	226,084
5th	North Carolina	166,187
6th	Ohio	145,286
7th	Illinois	134,018
8th	Indiana	111,529
9th	Virginia	92,485
10th	Wisconsin	65,615
11th	West Virginia	59,620
12th	Maryland	56,257
13th	New Jersey	47,766
14th	Massachusetts	42,072
15th	Connecticut	35,459

Per Capita Expenditures

Rank	State	Amount
1st	California	$40.60
2nd	North Carolina	39.63
3rd	Michigan	39.54
4th	West Virginia	30.77
5th	Indiana	26.96
6th	Virginia	26.10
7th	New York	23.24
8th	Maryland	22.13
9th	Pennsylvania	21.21
10th	Wisconsin	18.65
11th	Ohio	17.36
12th	Connecticut	16.40
13th	Illinois	14.89
14th	New Jersey	9.29
15th	Massachusetts	8.58

Per Cent of Total Income Payments to Individuals in State

Rank	State	Amount
1st	North Carolina	3.61%
2nd	West Virginia	2.44
3rd	California	1.99
4th	Michigan	1.97
5th	Virginia	1.91
6th	Indiana	1.47
7th	Maryland	1.19
8th	Pennsylvania	1.16
9th	Wisconsin	1.08
10th	New York	1.07
11th	Ohio	.87
12th	Connecticut	.74
13th	Illinois	.71
14th	Massachusetts	.47
15th	New Jersey	.44

Per Cent of Total State Expenditures*

Rank	State	Amount
1st	North Carolina	46.37%
2nd	Indiana	43.44
3rd	West Virginia	43.01
4th	Michigan	39.72
5th	California	39.43
6th	Virginia	38.28
7th	Pennsylvania	33.14
8th	New York	31.39
9th	Ohio	28.58
10th	Maryland	26.85
11th	Illinois	26.22
12th	Connecticut	23.1[illegible]
13th	New Jersey	21.39
14th	Wisconsin	21.21
15th	Massachusetts	9.86

Source: Adapted from U. S. Bureau of The Census, "Compendium of State Government Finances, 1953." The data have been reclassified.

* Total State Expenditures exclude Veterans' Bonus Payments. Also see note on Table 7.

was 1.16 per cent, ranking Pennsylvania eighth in the group of states.

Pennsylvania devoted 33.1 per cent of her total state government expenditures to public education in 1953, giving her a rank of seventh among the fifteen states.

The comparisons reveal that the costs of state government in Pennsylvania are relatively moderate. In total expenditures, to summarize, Pennsylvania which is third in population ranked as follows in 1953 among the fifteen leading states:

4th in the amount of total expenditures
14th in the rate of increase over 1940
12th in per capita expenditures
10th in the ratio of expenditures to income payments

As previously indicated, these data do not show the costs of local government in the various states. Pennsylvania is rare among the states in financing at the state level the public assistance costs which exceed Federal expenditures. In other states the local governments customarily shoulder a considerable part of the cost. It is therefore desirable to keep in mind to what extent state expenditures on various services are supplemented by local funds. The situation varies from state to state. In New Jersey, for example, the costs of state government are relatively low but the costs of local governments are comparatively high because of great local responsibilities.

THE INCREASING COSTS OF PUBLIC INSTRUCTION

Public education costs have been advancing rapidly over the nation. In 1953 the Federal, state, and local governments spent $10.1 billion for educational services. Of this total, the states expended $4.1 billion, or 40.3 per cent, the local governments $5.1 billion, or 50.6 per cent, and the Federal government $927 million, or 9.1 per cent.

For public elementary and secondary education in 1953, the nation spent $7.8 billion. The states expended $3.1 billion, or 39.5 per cent, the local governments $4.7 billion, or 59.9 per cent, and the Federal government $47 million, or 0.6 per cent. These expenditures include construction costs as well as current expenses.

In Pennsylvania, the total current expenses of the public schools, less tuition, in 1953 were $384 million. The local governments contributed $220 million, or 57.2 per cent of the total, the state $160 million, or 41.5 per cent, and the Federal government $5 million, or 1.3 per cent. As shown in Table 12, the state's share of the toal has been increasing faster than the local and is tending to catch up with it. Federal aid has grown only moderately and amounted to only 1.3 per cent of current expenses in 1953. Chart 4 portrays the rapidly increasing state expenditures for the current expenses of the public schools in recent years.

In 1954 Pennsylvania spent $246 per pupil in average daily attendance for current expenditures. As indicated on table 11 Pennsylvania ranked 19th among the 48 states this year. New York ranked 1st with an

Table 10
STATE EXPENDITURES BY FUNCTION
FISCAL YEAR 1953
(In Millions)

STATE	GENERAL CONTROL	RANK	PUBLIC SAFETY	RANK	HIGHWAYS REGULAR	HIGHWAYS TOLL	HIGHWAYS TOTAL	RANK	NATURAL RESOURCES	RANK	HOSPITALS & HEALTH	RANK	PUBLIC WELFARE	RANK	CORRECTION	RANK	EDUCATION	RANK
California	$49.4	2	$18.2	1	$228.0	$ 4.0	$232.0	1	$74.7	1	$ 87.2	3	$135.8	1	$35.5	1	$495.0	1
Connecticut	8.4	11	4.3	11	33.6	1.2	34.8	15	4.2	14	29.1	10	20.3	9	3.8	13	35.5	15
Illinois	17.6	4	8.3	5	137.1		137.1	6	14.1	6	68.6	5	87.2	3	15.1	3	134.0	7
Indiana	8.8	10	4.1	12	72.0	.2	72.2	11	8.7	10	25.8	13	11.0	11	5.8	10	111.5	8
Maryland	9.2	9	3.6	13	55.3	15.2	70.5	13	5.6	12	32.6	8	7.0	14	7.5	9	56.3	12
Massachusetts	16.8	5	4.6	10	93.3	.8	94.1	8	5.1	13	67.3	6	70.4	4	13.3	5	42.1	14
Michigan	12.9	7	8.0	6	153.5	2.8	156.3	4	16.1	4	76.7	4	45.2	7	13.7	4	271.0	3
New Jersey	12.6	8	8.7	4	56.6	36.3	92.9	9	9.6	9	31.9	9	11.9	10	8.2	8	47.8	13
New York	56.0	1	16.4	2	147.8	43.8	191.6	3	32.2	2	199.2	1	116.4	2	26.9	2	354.0	2
North Carolina	7.0	13	5.0	9	110.9		110.9	7	10.2	8	26.8	11	7.4	13	3.9	12	166.2	5
Ohio	16.2	6	7.0	7	141.7	6.6	148.3	5	12.1	7	47.3	7	58.8	5	12.5	6	145.3	6
PENNSYLVANIA	23.7	3	13.8	3	181.9	17.3	199.2	2	21.5	3	93.7	2	58.2	6	10.2	7	226.1	4
Virginia	8.3	12	6.4	8	68.8	2.0	70.8	12	8.2	11	26.7	12	4.9	15	5.2	11	92.5	9
West Virginia	4.5	15	1.7	14	38.8	11.9	50.7	14	4.2	14	7.0	15	10.1	12	1.9	14	59.6	11
Wisconsin	7.7	14	1.2	15	73.8		73.8	10	14.2	5	24.5	14	22.4	8	5.2	11	65.6	10

SOURCE: U. S. Bureau of The Census, "Compendium of State Government Finances, 1953"

Note: See note on Table #7. (includes expenditures for toll facilities).

Table 11

CURRENT EXPENDITURE PER PUPIL IN AVERAGE DAILY ATTENDANCE IN THE PUBLIC SCHOOLS IN THE UNITED STATES, BY STATES, 1950-1951

State	Current Expenditure Per Pupil in ADA	Rank	State	Current Expenditure Per Pupil in ADA	Rank
United States	$ 224		Nebraska	$ 235	23.3
			North Dakota	235	23.4
New York	328	1	Kansas	228	26.5
New Jersey	301	2	Louisiana	228	26.5
Delaware	290	3	Vermont	223	28
Oregon	282	4	Maryland	222	29
Illinois	281	5.5	Colorado (1950)	220	30
Wyoming	281	5.5	Texas	215	31
California	277	7	Oklahoma	211	32
Montana	276	8	Idaho	209	33
Connecticut	265	9	Ohio	202	34
Rhode Island	261	10	Florida	196	35
Nevada	260	11	Missouri	190	36
Washington	258	12	Utah	183	37
Arizona	254	13	Maine	166	38
Wisconsin	252	14	West Virginia	158	39
Massachusetts	251	15.5	Virginia	157	40
Minnesota	251	15.5	North Carolina	155	41
Iowa	248	17	Tennessee	138	42
Michigan	247	18	Kentucky	135	43
			Georgia	133	44
PENNSYLVANIA	246	19	South Carolina	132	45
			Alabama	126	46
South Dakota	239	20	Arkansas	117	47
New Mexico	238	21	Mississippi	93	48
New Hampshire	237	22			
Indiana (1950)	235	23.3			

Source: Federal Security Agency, Office of Education. Residence and Migration of College Students, 1949-50. Miscellaneous No. 14, Washington, D. C.: Superintendent of Documents, 1951.

expenditure of $328 per pupil. The average expenditure for the 48 states was $224.

The major factors in the rising costs of public education in this and other states have been the great increase in the public school population, the higher prices of equipment and supplies, and the necessity for increasing teacher's salaries. The upward trend in teachers' salaries in the fifteen leading states is shown in Table 13. In the present school year, the average annual salary in Pennsylvania is $3,951, as compared with the average in the 48 states of $3,725. We now rank ninth among the fifteen states. Maryland, New Jersey, New York, and some of the other states pay higher salaries than Pennsylvania.

The General Assembly has provided for annual increases in teachers' salaries through growing subsidies and is also assisting the local governments in meeting other educational costs. The State Public School Building Authority has been established to give substantial aid to local governments in constructing new school buildings.

Data received from the State Budget Bureau reveal how state aid for education will increase in the coming bienniums as a result of legislation already enacted. Public school expenditures required by existing laws are estimated to increase from $420 million in the 1953-1955 biennium to $735 million in 1959-1961, as shown in Table 21.

STATE TAX PROBLEM PRIMARILY A PUBLIC SCHOOL FINANCING PROBLEM

The state tax problem is now primarily a public school financing problem. Of the $1,105 million thus far appropriated to the General Fund for the 1953-1955 biennium, $496 million, or 49 per cent, are to go for public educatiom, that is for the public schools, state aided colleges and univeresetiies, state teachers colleges and adminstrative expenses of the Department of Public Instruction. This is a somewhat smaller amount than had been originally estimated.

A decade ago, in the 1943-1945 biennuim, public education costs were $145 million, or 39 per cent of the General Fund appropriations of $375 million.

The state is assuming more and more responsibility for public education with a consequent increase in state expenditures. Whereas in 1940, state expenditures for public schools were 23.3 per cent of the total, by 1953-54 they had increased to 41.5 per cent. Much of this increase, however, is apparent, rather than real, because of the declining purchasing power of the dollar. In dollars of 1933 purchasing power, Pennsylvania state public school appropriations rose from $111 million in 1943-1945 to an estimated $207 million in 1953-1955, or considerably less than in dollars of current purchasing power.

The great increase in the population of public school age is apparently to continue for a long time. Projections of the U. S. Department of Commerce forecast that the nation's population of 151,677,000 in 1950 is to increase to 164,782,000 in 1955, and to 220,982,000 in 1975, as shown in

CHART 4

AMOUNT OF LOCAL, STATE AND FEDERAL SUPPORT OF PUBLIC SCHOOLS IN PENNSYLVANIA

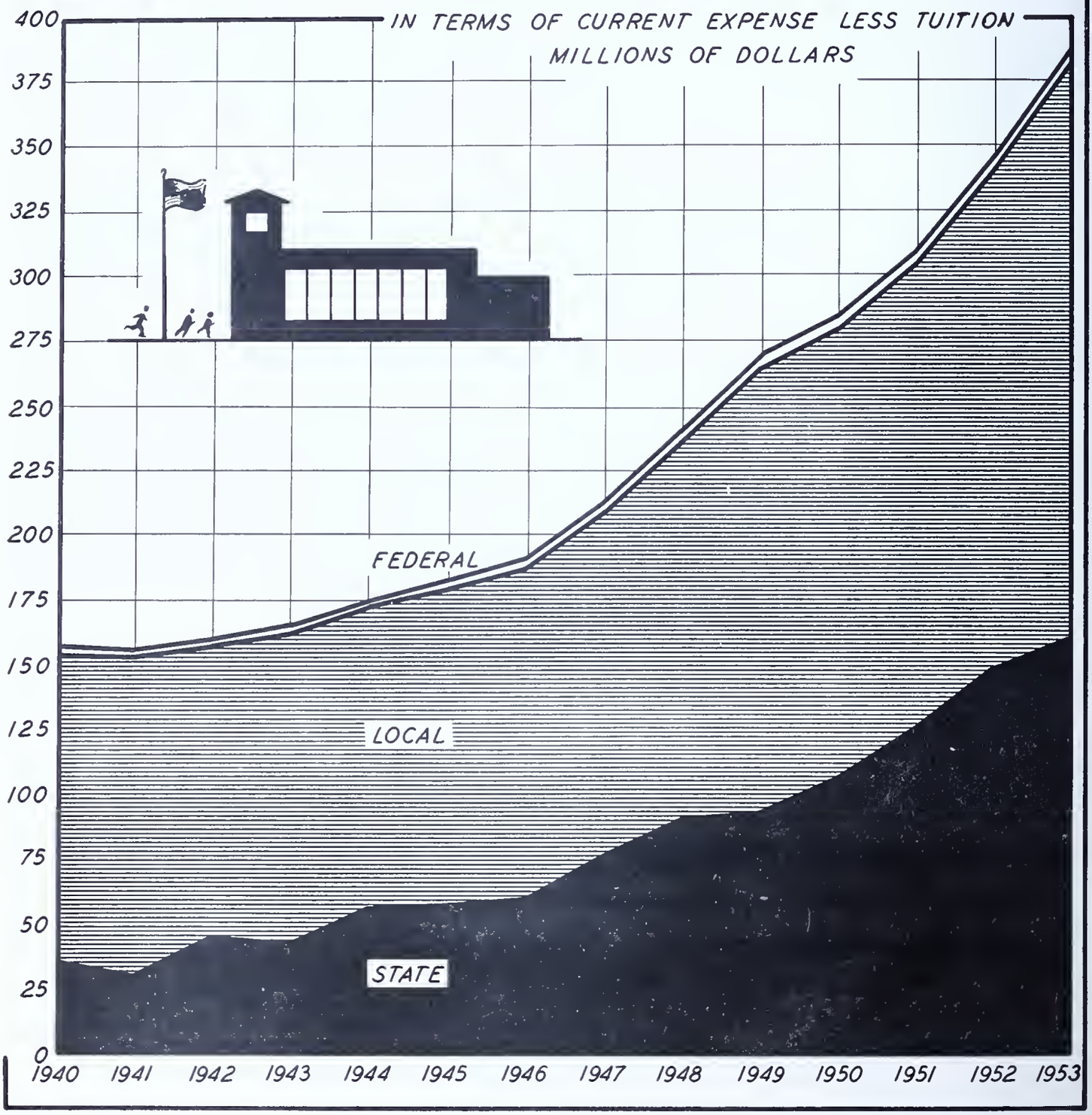


Table 12

AMOUNT OF LOCAL, STATE, AND FEDERAL SUPPORT OF PUBLIC SCHOOLS IN PENNSYLVANIA

In Terms of Current Expense Less Tuition

School Year Ending	Local, State, and Federal Support to Finance Current Expense						Total Current Expense Less Tuition
	Local	%	State	%	Federal	%	
1940	$116,330,543	76.0	$ 35,699,680	23.3	$1,069,089	0.7	$153,099,312
1941	122,294,988	80.0	29,561,775	19.3	1,082,978	0.7	152,939,741
1942	112,328,201	70.7	45,431,698	28.6	1,112,449	0.7	158,872,348
1943	118,703,222	73.1	42,634,462	26.2	1,139,050	0.7	162,476,734
1944	117,174,915	67.1	56,350,560	32.3	1,112,536	0.6	174,638,011
1945	122,569,540	68.1	56,425,866	31.3	1,039,618	0.6	180,035,024
1946	126,079,903	67.1	60,738,456	32.3	1,039,618	0.6	187,857,977
1947	131,757,905	62.4	76,827,293	36.5	2,311,687	1.1	210,896,885
1948	145,041,876	60.5	92,002,479	38.4	2,599,810	1.1	239,644,165
1949	171,165,560	64.0	93,321,634	34.9	3,048,179	1.1	267,535,373
1950	171,315,954	60.7	106,874,622	37.9	3,830,045	1.4	282,020,621
1951	180,033,037	58.3	125,311,570	40.6	3,343,316	1.1	308,687,923
1952	192,759,538	55.8	148,051,593	42.8	4,787,149	1.4	345,598,280
1953	219,813,992	57.2	159,537,005	41.5	4,901,551	1.3	384,252,548

Source: Statistical Report of the Superintendent of Public Instruction for the School Year ending July 2, 1951. Data for 1952 and 1953 from the Department of Public Instruction.

TABLE 13

TREND OF TEACHERS' SALARIES*

Average Annual Salary

State	School Year 1939-1940	School Year 1944-1945	School Year 1949-1950	School Year 1953-1954
United States, Total	$1,441	$1,846	$3,010	$3,725
California	2,351	2,749	4,268	5,000
Connecticut	1,861	2,085	3,558	4,125
Illinois	1,700	2,139	3,458	4,100
Indiana	1,433	2,017	3,401	3,900
Maryland	1,642	2,080	3,594	4,277
Massachusetts	2,037	2,386	3,338	4,075
Michigan	1,576	2,147	3,420	4,100
New Jersey	2,093	2,467	3,511	4,292
New York	2,604	2,733	3,706	4,800
North Carolina	946	1,382	2,688	3,279
Ohio	1,587	2,122	3,088	3,900
Pennsylvania	1,640	2,008	3,006	3,951
Virginia	899	1,376	2,328	3,050
West Virginia	1,170	1,526	2,425	3,050
Wisconsin	1,379	1,844	3,007	3,721

Source: U. S. Department of Health, Education and Welfare, except 1952-1953 and 1953-1954 figures, which are advance estimates furnished by the National Education Association.

* Include salaries of supervisors, principals, and teachers in public elementary and secondary schools.

Table 18. The population 5 to 19 years of age is expected to increase from 35,124,00 in 1950 to 41,677,000 in 1955, to 54,691,000 in 1965, and to 60,590,000 in 1975.

While the population in Pennsylvania is not increasing so fast as it is in some other states, it is nevertheless growing substantially and is providing many more children for the public schools. Public school attendance in Pennsylvania grew from 1,558,602 in 1950 to 1,749,634 in 1954, and is expected to increase to 2,071,600 by 1960.

The "public school crisis," created by the great increase in public school attendance, inadequate bulding facilities, and generally rising costs, is a serious national problem. To cope with this continuing problem, both state and local budgets and tax resources will apparently be strained for many years to come.

PUBLIC ASSISTANCE COSTS HAVE INCREASED

The increasing cost of state government cannot be ascribed solely to education. The costs of other major services have also been advancing.

Public assistance costs have been incrreased by the unemployment attending the economic recession of 1954. Since local governments do not share in the costs of public assistance, they must be met out of the General Fund revenues, with supplementary Federal aid. The State Budget Bureau estimates that public assistance costs will be $120 million in this biennium. As economic conditions improve with better employment, some reduction in public assistance costs may result. If living costs rise, however, public assistance costs will also tend to rise for each recipient.

WELFARE EXPENDITURES ARE GROWING

Pennsylvania welfare expenditures for the upkeep of state institutions and other purposes have been rising sharply in recent bienniums and are estimated by the State Budget Bureau to be $166 million in the 1953-1955 biennium. The costs of providing for mental health are high. Other substantial costs involve medical and surgical hospitals.

PUBLIC HEALTH COSTS ARE RISING

The state public health service is also requiring rising expenditures. They are estimated by the State Budget Bureau to be $37 million in 1953-1955.

STATE INTEREST AND DEBT CHARGES ARE LARGE

Interest and sinking fund requirements for state debt retirement constitute a considerable part of the General Fund budget. They are estimated at $85 million in 1953-1955 by the State Budget Bureau.

Table 14

COMMONWEALTH OF PENNSYLVANIA
BONDED INDEBTEDNESS
AS OF OCTOBER 31, 1954

FULL FAITH AND CREDIT DEBT

	World War I Veteran' Compensation Bonds	Public Buildings Construction Bonds	Toll Bridge Bonds	World War II Veterans' Compensation Bonds	Total
Issued	$50,000,000	$50,000,000	$8,500,000	$440,000,000	$648,500,000
Redeemed	47,500,000	6,000,000	3,550,000	81,000,000	238,050,000
Outstanding	$ 2,500,000	$44,000,000	$4,950,000	$359,000,000	$410,450,000
Less: Sinking-Fund	181,445	8,767,546	.....	.....	8,948,991
Net Indebtedness	$ 2,318,555	$35,232,454	$4,950,000	$359,000,000	$401,501,009

Full faith and credit indebtedness is limited to $1,000,000 without Constitutional Amendment.

OTHER DEBT

	General State Authority	Public School Building Authority	Highway and Bridge Authority	Total Other Indebtedness
Issued	$185,000,000	$66,381,000	$80,000,000	$331,381,000
Redeemed	8,740,000	.....	1,610,000	10,350,000
Outstanding	$176,260,000	$66,381,000	$78,390,000	$321,031,000
Less: Sinking-Fund	.....	.....	.....	.....
Net Indebtedness	$176,260,000	$66,381,000	$78,390,000	$321,031,000

PENNSYLVANIA TURNPIKE BONDS

Bonds Outstanding.....	$483,898,000
Less Sinking Funds.....	19,388,286
Net Indebtedness.....	$464,509,712

Source: State Budget Bureau

Table 14 summarizes the outstanding state debt on October 31, 1954. The full faith and credit debt is a direct obligation of the General Fund. Indirectly, the General State Authority debt and a part of costs of the State Public School Building Authority debt are also an obligation of the General Fund.

The full faith and credit debt of $402 million includes $359 million of Veterans' Compensation bonds related to the Second World War. Approval of compensation for the veterans of the Korean War would add a substantial sum to the full faith and credit debt.

The other debt of the Commonwealth amounts to $321 million, distributed as shown in Table 14. The General State Authority debt is $176 million, and that of the State Public School Building Authority is $66 million.

In September 9, 1954 according to the Department of Public Instruction, there were 666 projects approved by the Department of Public Instruction and under lease. There were an additional 102 projects approved with lease approval pending. The reimbursable cost of these 768 projects totaled $424.4 millions. This is only 600 thousand short of the $425 million limit which the Department of Public Instruction is permitted to approve for reimbursement. The State's obligation will be for approximately one-half of the amount approved. Approximately one-fourth of the projects approved are State Public School Building Authority projects, the others are Municipality Authority or Non-Profit Corporation projects.

In addition to approved projects, there were, as of September 9, 1954, twenty-eight projects approved without reimbursement and 122 projects with approval pending on the raising of the limit of $425 million. The gross cost of these projects totals $113.1 million.

The authority device is being employed by state and local governments to avoid the legal limitations on full faith and credit debt. It may readily be utilized to finance expenditures by borrowing, with attendant risks of increased spending and excessive indebtedness.

THE PUBLIC DEBT OF PENNSYLVANIA AND OTHER STATES

The net debt of Pennsylvania and other selected states in the group of fifteen in 1953 is shown in Table 15. At that time Pennsylvania ranked second among the fifteen states in the total of full faith and credit debt and first in the total of other debt. The latter is mostly debt of the Pennsylvania Turnpike and other Authorities.

In per capita full faith and credit debt Pennsylvania ranked fourth among the fifteen states, and in per capita other debt, third.

In relation to income payments, Pennsylvania ranked fourth among the fifteen states in full faith and credit debt and third in other debt.

In the per capita total of full faith and credit and other debt, Pennsylvania ranked second among the fifteen states. In relation to income

Table 15

NET STATE DEBT OUTSTANDING, END OF FISCAL YEAR 1953[1]

State	Full Faith and Credit Debt			Other Debt		
	Amount (In thousands)	Per Capita	Percent of Income Payments	Payments Amount (In thousands)	Per Capita	Percent of Income Payments
California	$284,046	$24.94	1.14%	$ 60,371	$ 5.30	0.24%
Connecticut	80,200	38.14	1.69	.....	....	....
Illinois	325,170	36.46	1.72	22,526	2.53	0.11
Indiana	.....	.....	....	18,604	4.53	0.24
Maryland	74,906	29.65	1.58	101,992	40.38	2.16
Massachusetts	375,224	78.25	4.22	34,158	7.13	0.38
Michigan	211,777	31.57	1.54	133,835	19.95	0.97
New Jersey	124,891	24.47	1.15	277,664	54.42	2.57
New York	442,278	29.14	1.34	27,600	1.82	0.08
North Carolina	201,806	48.28	4.38	697	.17	0.01
Ohio	144,840	17.72	0.86	329,491	40.31	1.95
Pennsylvania	439,367	41.19	2.26	491,268	46.05	2.52
Virginia	5,888	1.68	0.12	21,608	6.18	0.44
West Virginia	144,113	73.87	5.91	98,761	50.62	4.05
Wisconsin	.....	.....	....	5,419	1.53	0.08

Source: U. S. Bureau of Census, "Summary of State Government Finances in 1953".

[1]Short term debt not included. Connecticut had $179,490,000 outstanding; Massachusetts, $7,829,000; New Jersey, $17,000,000; and New York, $60,000,000.

CHART 5

PER CAPITA FULL FAITH & CREDIT STATE DEBT OUTSTANDING, END OF FISCAL YEAR 1953

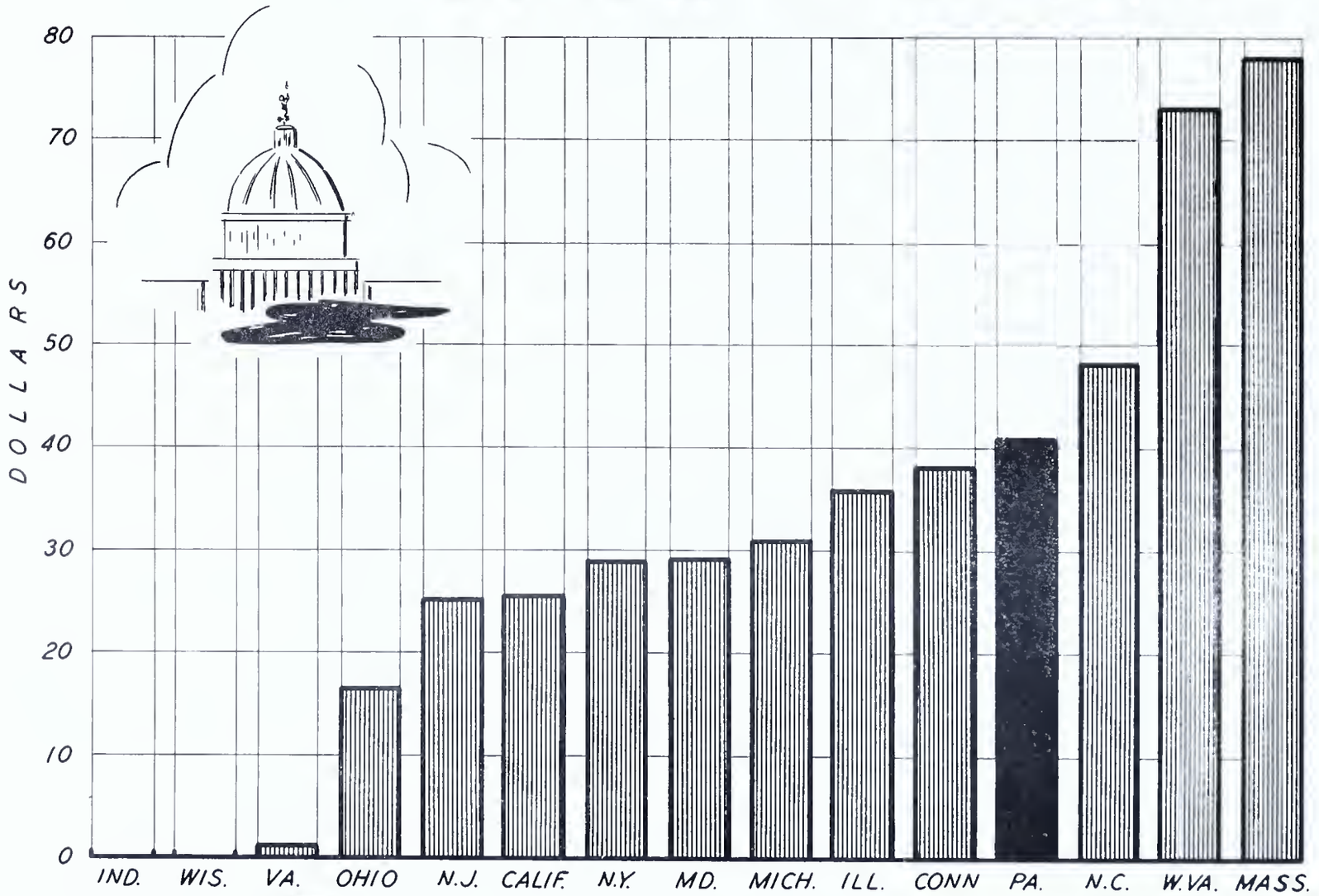


Table 16

GENERAL FUND APPROPRIATIONS
1933-35 - 1953-55 Bienniums

BIENNIUM	EDUCATION(1) (IN MILLIONS)	TOTAL GENERAL FUND (IN MILLIONS)	PER CENT OF TOTAL
1933-35	$ 87.4	232.8	38%
1935-37	88.1	335.6	26
1937-39	94.0	416.1	23
1939-41	97.9	420.3	23
1941-43	109.0	355.1	31
1943-45	144.9	375.3	39
1945-47	172.6	531.4	32
1947-49	240.6	598.8	40
1949-51	297.7	765.9	39
1951-53	416.5	903.0	46
1953-55	496.3	1,014.8	49

[1]Appropriations to the Historical & Museum Commission are included through the 1943-45 biennium and are excluded thereafter.

Source: State Budget Bureau

Table 17

BIENNIAL APPROPRIATIONS FOR EDUCATION
1933-35 thru' 1953-55
(Dollar amounts in millions)

Year	In Dollar Amounts	In Terms of the Purchasing Power These Dollars[1]	In Per Cent of the Citizens' Income Dollar[2]
1933-35	$ 87.4	$ 87.4	2.0%
1935-37	88.1	85.6	1.6
1937-39	94.0	88.6	1.6
1939-41	97.9	92.4	1.6
1941-43	109.0	93.5	1.3
1943-45	144.9	111.2	1.3
1945-47	172.6	117.6	1.4
1947-49	240.6	127.9	1.7
1949-51	297.7	142.1	1.9
1951-53	416.5	177.5	2.3
1953-55	496.3	206.7[3]	2.6[3]

[1]Implicit price deflators for State & local governmental purchases of goods & services. U. S. Department of Commerce, "Survey of Current Business," July 1953. 1933 is the base year.

[2]Per cent of income payments to individuals in Pennsylvania. U. S. Department of Commerce.

[3]Estimated.

Source: State Budget Bureau.

Table 18

PROJECTIONS OF THE POPULATION OF THE UNITED STATES[a]

BY AGE GROUPS

As of July 1, Selected Years 1955-1975

Age Group	Number (Thousands)						As a Percentage of Total Population					
	1950	1955	1960	1965	1970	1975	1950	1955	1960	1965	1970	1975
Total	151,677	164,782	177,426	189,916	204,222	220,982	100.0	100.0	100.0	100.0	100.0	100.0
Under 5 Years	16,312	17,917	17,928	18,884	21,351	24,452	10.8	10.9	10.1	9.9	10.5	11.1
5-19 Years	35,124	41,677	49,528	54,691	57,197	60,590	23.2	25.3	27.8	28.8	28.0	27.4
20-44 Years	57,116	57,709	57,880	59,793	64,833	72,115	37.7	35.0	32.6	31.5	31.7	32.6
45-64 Years	30,761	33,506	36,589	39,212	41,956	43,136	20.3	20.3	20.6	20.6	20.5	19.5
65 Years and Over	12,364	13,973	15,701	17,336	18,885	20,689	8.2	8.5	8.8	9.1	9.2	9.4

(a) Assumes continuation of 1950-1953 level of fertility. Includes armed forces overseas. Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

payments, Pennsylvania ranked second with respect to this debt.

Borrowing today means more taxes tomorrow. Borrowing also adds to the costs of services the interest charges and expenses of debt management. By borrowing Pennsylvania has deferred current tax needs but has created the need for higher taxes over a long period of years.

LOCAL GOVERNMENT COSTS ARE RISING

State and local government finances are inextricably interwoven. The local governments are creatures of the state and must perform the services it requires. On the other hand, they are ever drawing upon state tax resources for aid in financing public education and other services. The funds at the disposal of the states for taxation as well as the sums which the states must spend are thus related to local government taxes and expenditures.

Table 19 reveals that local government expenditures in the 48 states grew from $4.9 billion in 1940 to $16.0 billion in 1953.

The expenditures of Pennsylvania local governments rose from $348.1 million in 1942 to $710.6 million in 1951, as shown in Table 20. Local taxes grew from $338.5 million to $514.0 million in this period. Meanwhile state aid increased, growing to $188.4 million in 1952.

The combined state and local government expenditures in Pennsylvania mounted from $647.3 million in 1942 to $1,560.3 million in 1951.

The combined state and local taxes climbed from $647.0 million in 1942 to $1,051.1 million in 1951, rising from $66.50 per capita to $99.55 per capita.

The total Pennsylvania state and local taxes were equivalent to 7.3 per cent of income payments in 1942 and 6.0 per cent in 1951.

A GROWING REVENUE SHORTAGE IS IN SIGHT

The data available to the Tax Study Committee concerning the trends in General Fund expenditures and revenues, the public debt burden, and certain of the relationships of state to local government finances have been briefly presented in this chapter.

As indicated early in the chapter, the State Budget Bureau estimates that the 1953-1955 biennium will close with a deficit of approximately $60 million. The expiration of the sales tax on August 31, 1955 may leave the Commonwealth with the need for finding substantial new revenues to replace this source in 1955-1957.

The receipts from the retail sales tax are estimated by the State Budget Bureau to be $103 million in the 1953-55 biennium and $20 million for the four remaining months of its life in the 1955-57 biennium.

CHART 6

EXPENDITURES OF FEDERAL, STATE AND LOCAL GOVERNMENTS

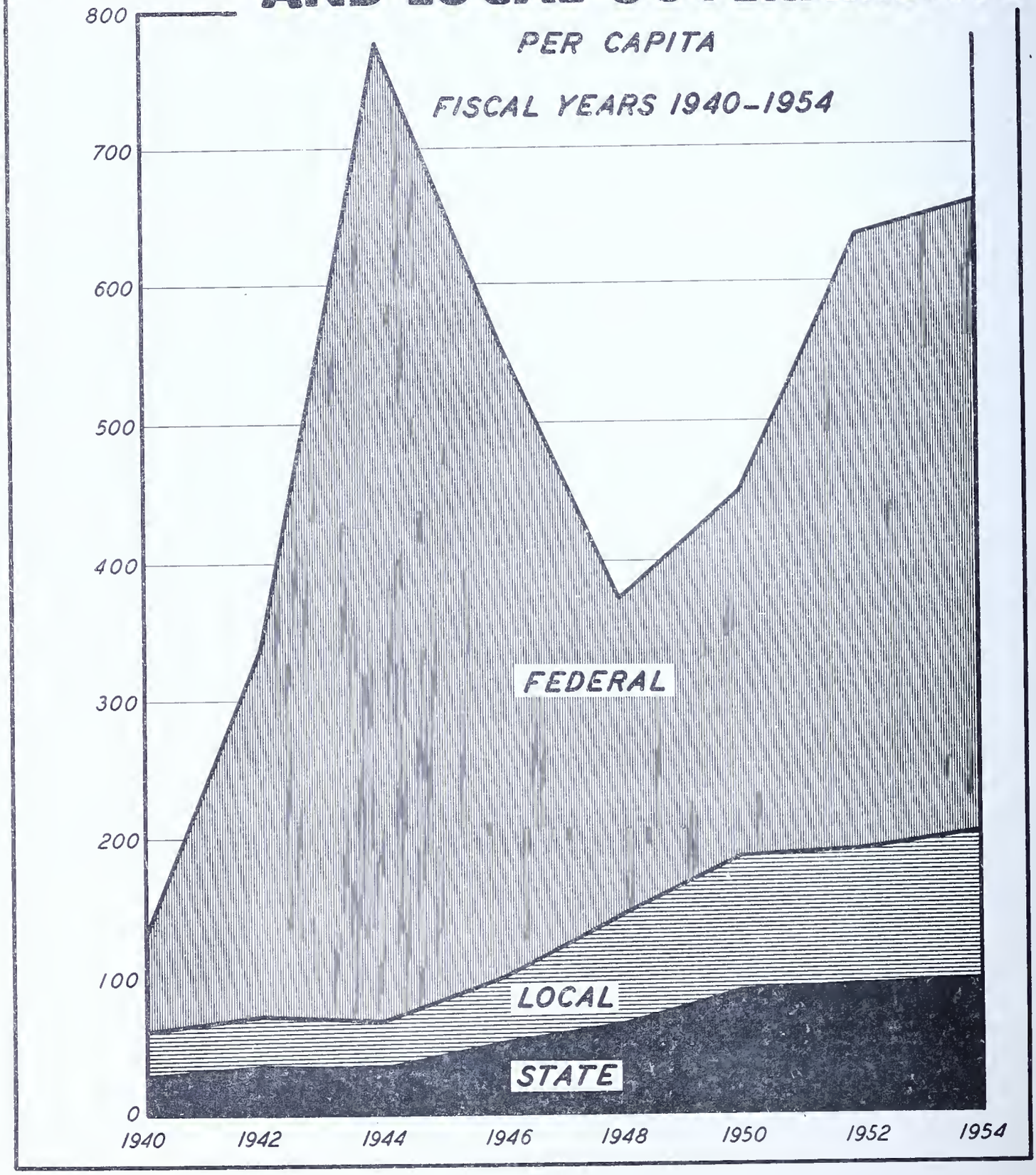


Table 19

EXPENDITURES OF FEDERAL, STATE, AND LOCAL GOVERNMENTS
Selected Fiscal Years 1940-1954
Including Veterans Bonus Payments[1]

Fiscal Year	TOTAL Amount (In Millions)	TOTAL Per Capita	FEDERAL[2] Amount (In Millions)	FEDERAL[2] Per Capita	48 STATES[3] Amount (In Millions)	48 STATES[3] Per Capita	ALL LOCAL[4] Amount (In Millions)	ALL LOCAL[4] Per Capita
1940	$ 17,674	$135.04	$ 9,205	$ 70.33	$ 3,565	$27.38	$ 4,904	$ 37.47
1941	21,774	165.01	13,465	102.04	3,542	26.98	4,767	36.13
1942	43,805	329.06	34,291	257.59	4,485	33.89	5,029	37.78
1944	104,245	776.53	95,378	710.48	4,180	31.35	4,687	34.91
1946	74,093	559.27	60,937	459.97	6,202	47.13	6,954	52.49
1948	53,925	375.93	33,898	236.31	9,441	66.23	10,586	73.80
1950	67,677	455.23	40,824	274.60	12,659	85.62	14,194	95.48
1951	72,522	479.54	45,981	304.04	12,512	83.17	14,029	92.76
1952	96,209	627.24	67,892	442.63	13,349	87.49	14,968	97.59
1953	107,617	690.94	77,529	497.76	14,089	90.94	15,999	102.72
1954	103,247	652.20	71,547	451.95	14,700[5]	93.35	17,000	107.39

1. Exclusive of debt retirement; grants-in-aid are counted as expenditures of the first disbursing unit. State and local data for 1942-1953 not strictly comparable with earlier years due to changes in reporting.
2. "Net budget expenditures" plus benefit payments and administrative expenses of the Old Age and Survivors' Insurance Trust Fund and the Railroad Retirement Account and benefit payments of the Railroad Unemployment Insurance Account.
3. "Total Expenditure" (excluding debt retirement) less aid received from other governments.
4. "Total Expenditure" (excluding debt retirement) less aid received from other governments. Data for years other than 1952 and 1953 are Tax Foundation estimates.
5. Estimated by Tax Foundation.

Source: Department of Commerce, Treasury Department and The Tax Foundation.

Table 20

PENNSYLVANIA LOCAL AND STATE EXPENDITURES AND REVENUES
1942, 1945, AND 1951

	Local Expenditures*			Local Revenues*			Local Tax Revenues*		
	Amount (In Thousands)	Per Capita	Percent of Income Payments	Amount (In Thousands)	Per Capita	Percent of Income Payments	Amount (In Thousands)	Per Capita	Percent of Income Payments
1942	$348,079	$35.78	4.0%	$358,803	$36.88	4.1%	$338,464	$34.79	3.8%
1945	445,169	49.20	3.9	402,570	44.40	4.2	339,995	37.58	3.0
1951	710,627	67.30	4.0	716,794	67.88	5.0	514,000	48.68	3.9
	State and Local Expenditures			State and Local Revenues			State and Local Taxes		
1942	$647,291	$66.53	7.4%	$696,187	$71.56	7.9%	$646,966	$66.50	7.3%
1945	688,219	76.07	6.0	724,201	80.04	6.3	628,865	69.50	5.5
1951	1,560,274	147.77	8.9	1,330,393	126.00	7.6	1,051,106	99.55	6.0

Sources: Local Government data for 1942, Post-War Planning Commission, "Local Government Finance in Pennsylvania"; for 1945, Department of Internal Affairs, "Local Government Finances in Pennsylvania"; for 1951, primarily from reports of the Department of Internal Affairs, with some estimates based on prior years' experience. State government data adapted from U. S. Bureau of the Census information. State expenditures exclude federal aid.

* State Aid is excluded. Some federal aid is probably included in local revenues and expenditures, since detailed information was not available with the source material used. Years are calendar for local and fiscal for state data. Veteran's Bonus Payments are included under State expenditures.

Both the General Fund expenditures and revenues in the coming bienniums will depend upon the future actions of the General Assembly and the Governor and also upon changing economic, social, and political conditions. At this time they cannot be forecast with the certainty of accuracy.

As a basis for estimating the minimum amount of additional revenue which will be required in succeeding bienniums to balance General Fund commitments, it may be assumed that state educational costs will advance each biennium by the amounts required by existing legislation. The State Budget Bureau estimates that these increases, as shown in Table 21, will be as follows in succeeding bienniums:

1955-1957	$113 million
1957-1959	$104 million
1959-1961	$ 98 million

Total increase over 1953-1955, $315 million.

As one basis for anticipating future revenue requirements, we have made the assumption, unrealistic though it may be that in this period the total of other state expenditures will remain approximately constant. Such an assumption, however, is inconsistent with the increase in the aggregate of other expenditures in the past, and would seem to be useful only as a basis for forecasting the possible minimum increases in General Fund expenditures.

On this basis, if present revenues were retained and their yield in each biennium continued at the approximate level of the 1953-1955 estimated yield, the additional revenues required, over and beyond the $60 million needed to offset the anticipated 1953-1955 deficit plus the carry over of cash of $17 million which presumably will not be available in future bienniums, would be equivalent to the increases in education costs as estimated by the State Budget Bureau. If any presently existing Pennsylvania taxes are to expire or are eliminated then an equivalent amount of revenue must be found to maintain similar revenues.

The State Budget Bureau estimated, as of November 19, 1954, that General Fund deficiency appropriations for the 1953-1955 biennium would total $26.4 million and that revenues would fall short of original estimates by $53.0 million. The revenue shortage would be offset in part by $18.8 million of lapses on appropriations. The total revenue needs for the 1953-1955 biennium were estimated, therefore, at $60.6 million.

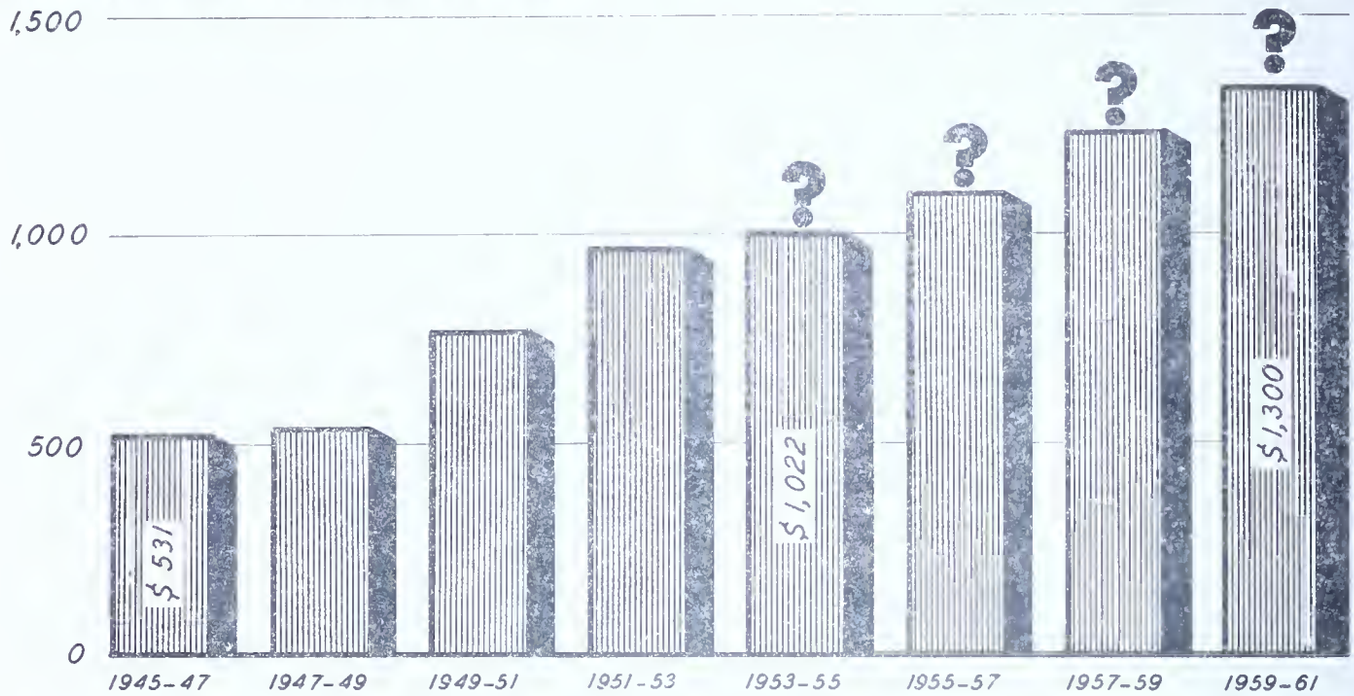
Estimated additional General Fund appropriations for the 1955-1957 biennium were $126.5 million. Offsetting these estimated increases were $15.0 million of estimated reductions in appropriations for the 1955-1957 biennium. This resulted in an estimated net increase in General Fund appropriation for the 1955-1957 biennium of $115.5 million.

On the assumption that revenues in the 1955-1957 biennium would approximate those of the 1953-1955 biennium and the sales tax will expire on August 31, 1955, the revenue needed in the 1955-1957 biennium was estimated to be $290.9 million. The total additional revenue needed for the 1953-1955 and 1955-1957 biennium was estimated at $351.5 million.

CHART 7

THE TREND IN GENERAL FUND APPROPRIATIONS*

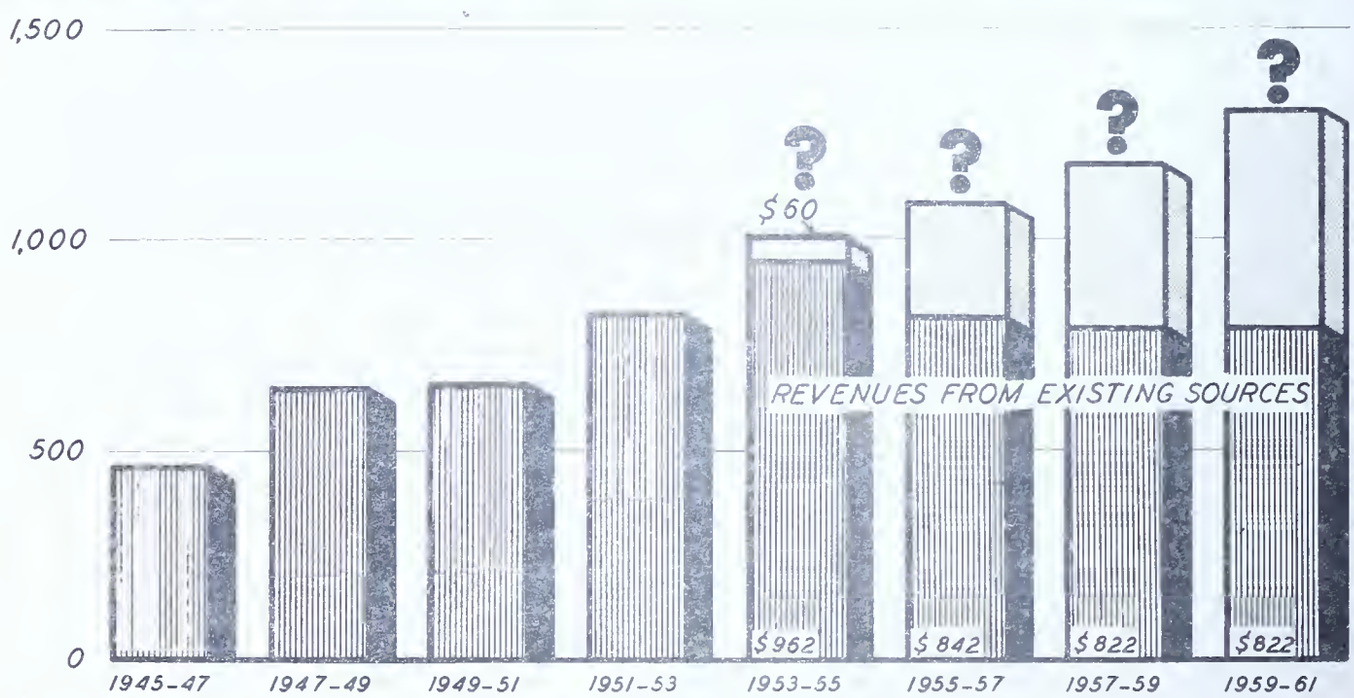
VALUES IN MILLIONS OF DOLLARS



*IF EDUCATIONAL COSTS INCREASE AS PROVIDED BY EXISTING LEGISLATION & TOTAL OF OTHER COSTS IS CONSTANT.

THE GROWING REVENUE SHORTAGE*

VALUES IN MILLIONS OF DOLLARS



*IF LEVEL OF TAX COLLECTIONS OF 1953-1955 IS MAINTAINED. SALES TAX EXPIRES AUGUST 31, 1955.

Table 21

ESTIMATES OF PUBLIC SCHOOL EXPENDITURES

1951-1953 Biennium Through 1959-1961 Biennium
(As Required Under Existing Laws)

Type of Expenditure	1951-1953	1953-1955[1]	1955-1957	1957-1959	1959-1961
Support of Public Schools ..	$286,700,000	$367,300,000	$462,300,000	$557,300,000	$652,300,000
Salaries and Expenses of County Supervisory Personnel	2,570,200	3,021,200	3,721,200	3,721,200	3,721,200
Transportation	20,500,000	25,430,000	29,430,000	33,430,000	36,430,000
Vocational Education (State Funds only)	2,865,000	2,865,000	3,615,000	3,615,000	3,615,000
Aid to Financially Handicapped School Districts ..	1,000,000	700,000	700,000	700,000	700,000
School Health Examinations[2]	9,879,823	9,800,000	10,800,000	11,000,000	11,000,000
Eye and Ear Tests of Pupils	26,200	30,000	30,000	30,000	30,000
School Lunch Program (State Funds only)	149,000	149,000	150,000	150,000	150,000
Miscellaneous Subsidies	614,799	688,291	700,000	700,000	700,000
Total (Exclusive of Rental Payments)	$324,462,322	$409,983,491	$511,446,200	$610,646,200	$708,646,200
Annual Rental Payments to Municipalities and Public School Building Authority	$ 900,000	$ 9,350,000	$ 20,450,000	$ 25,500,000	$ 25,500,000
Total	$325,362,322	$419,333,491	$531,896,200	$636,146,200	$734,146,200

Source: State Budget Bureau

Note: Expenditures for Teachers' Retirement purposes are not included.
[1]Includes estimated deficiency appropriations as of November 19, 1954.
[2]A Department of Health appropriation.

The assumption that aside from education costs the total of state expenditures will remain approximately constant through 1959-1961 may be quite unrealistic in view of the growth in the Pennsylvania population and the constant tendancy for state health, welfare, and other expenditures, in general, to rise. On the other hand, if the economy expands and employment and incomes increase sufficiently, public assistance costs should decline somewhat, unless rising costs of living force an increase. As the Federal old-age insurance system is extended, moreover, the number of persons requiring public assistance should tend to decline.

A rising economy would produce more revenue from existing taxes. Whether this increase in revenues would be sufficient to meet the costs of services outside the area of education would depend upon a number of factors.

The long-run outlook foreshadows the necessity for very substantial tax increases to meet the rising costs of education and other services. A bonus for the veterans of the Korean War would augment the new tax requirements, as would other additional expenditures.

Minor adjustments in the present tax system will apparently not suffice to produce the great new revenues needed by the Commonwealth.

Chapter II

THE TAXES PENNSYLVANIA IMPOSES

The state taxes of Pennsylvania consist of (1) the General Fund taxes imposed to finance public assistance, education, health, welfare, and certain other services, (2) the motor vehicle fuel and license taxes used exclusively for highway purposes, and (3) the payroll tax on employers to support unemployment insurance.

This study is concerned primarily with the taxes levied to pay for General Fund services. The profits of the State Liquor Store System, which are obtained from the consumers patronizing the State Stores, are, in effect, a tax and will be so considered. These profits are one of the General Fund revenues.

The tax burdens of the citizens and business consist of all the above mentioned taxes. Their capacity to pay General Fund taxes is necessarily related to the tax burdens they must also accept in paying for the highways and unemployment insurance.

In the fiscal year 1954, the total Pennsylvania state tax collections were $749.9 million, including the following:

General Fund taxes	$468.0 million
Highway user taxes	192.5
Payroll tax	89.4

The estimated receipts from the General Fund taxes in 1953-1955 are shown in Table 25, where they are classified according to type of taxation. It will be observed that the corporation taxes are supplying the greatest amount of revenue, 38.8 per cent of the total. Taxes on consumer commodities rank next in importance, furnishing 38.4 per cent of the total.

STATE TAX PATTERNS

There is a tendency for new forms of taxation, particularly those taxes found to be productive and reasonably equitable to spread from state to state because the large expenditures of modern governments demand a diversity of revenue sources. As shown in Table 24, certain revenue sources are utilized in many states to finance services of a general nature. In 1954:

48 states taxed alcoholic beverages
41 states taxed cigarettes
34 states imposed general sales taxes
33 states imposed corporate net income taxes
30 states imposed personal net income taxes(29 net-1 gross)
24 states taxed pari-mutuel betting
21 states impose both general sales and personal income taxes

Table 22

STATE GOVERNMENT TAX REVENUES[1]

Fiscal[1] Year 1954
(In thousands)

	Calif.	N.Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N.C.
TOTAL TAX COLLECTIONS	$1,242,401	$1,134,307	$ 656,014	$ 647,779	$ 560,596	$ 545,844	$ 327,561	$ 294,771
PERSONAL INCOME TAXES	96,254	351,067	-	-	-	-	71,539	38,832
GENERAL SALES	463,733	-	37,012	288,658	188,293	208,557	-	55,507
SELECTED COMMODITIES	28,199	133,261	134,288	69,915	83,786	57,657	49,681	10,390
Alcoholic Beverage Taxes	19,530	49,196	84,016	40,627	55,873	24,461	21,725	10,304
Alcoholic Beverage Licenses	8,669	24,054	5,846	3,312	7,482	1,419	419	86
Tobacco Taxes	-	60,011	44,426	25,976	20,431	31,777	27,537	-
CORPORATE AND OTHER BUSINESS	189,352	318,777	229,580	62,237	61,748	61,284	101,620	78,074
Corporate Net Income Tax	125,841	204,449	121,797	-	-	-	77,498	37,907
Corporation Capital Taxes	545	1,192	63,023	42,553	11,407	4,659	787	6,047
Other Business Taxes	62,966	113,136	44,760	19,684	50,341	56,625	23,335	34,120
MOTOR VEHICLES	322,267	221,389	195,423	146,713	190,305	188,708	73,572	99,308
Motor Fuels Taxes	230,508	110,740	132,836	88,913	117,971	116,288	53,743	75,853
Motor Vehicles	91,759	110,649	62,587	57,800	72,334	72,420	19,829	23,455
DEATH AND GIFT	25,532	29,250	35,816	10,630	6,650	12,191	14,383	4,568
PARI-MUTUEL	21,997	48,653	-	7,681	5,541	14,085	8,678	-
OTHER TAXES AND LICENSES	$ 95,067	$ 31,910	$ 23,895	$ 61,945	$ 24,273	$ 3,362	$ 8,088	$ 8,092

Source: U. S. Bureau of the Census, "State Tax Collections in 1954", and Pennsylvania Liquor Control Board.
(1)Preliminary data.

Table 22 (Continued)

STATE GOVERNMENT TAX REVENUES(1)

Fiscal(1) Year 1954
(In thousands)

	Ind.	Wisc.	Va.	N.J.	Md.	Conn.	W.Va.
TOTAL TAX COLLECTIONS	$ 285,928	$ 261,271	$ 211,478	$ 201,086	$ 181,304	$ 165,302	$ 137,041
PERSONAL INCOME TAXES	48,015	71,203	39,282	-	28,654	-	-
GENERAL SALES	91,159	-	-	-	32,797	53,773	66,798
SELECTED COMMODITIES	32,032	21,268	23,216	37,657	6,996	17,908	19,450
Alcoholic Beverage Taxes	13,280	10,809	23,086	17,542	6,879	6,051	11,354
Alcoholic Beverage Licenses	5,271	63	130	621	117	3,083	1,200
Tobacco Taxes	13,481	10,396	-	19,494	-	8,774	6,896
CORPORATE AND OTHER BUSINESS	11,547	64,583	57,070	29,156	28,419	42,729	5,721
Corporate Net Income Tax	-	47,854	21,958	-	13,961	25,337	-
Corporation Capital Taxes	247	227	819	10,888	525	490	1,072
Other Business Taxes	11,300	16,502	34,293	18,268	13,933	16,902	4,649
MOTOR VEHICLES	82,804	72,626	73,603	96,209	56,527	37,739	33,363
Motor Fuels Taxes	53,389	38,544	56,724	44,357	38,085	24,362	20,460
Motor Vehicles	29,415	34,082	16,879	51,852	18,442	13,377	12,903
DEATH AND GIFT	3,775	7,529	2,005	11,909	3,713	9,517	1,854
PARI-MUTUEL	-	-	-	21,026	6,837	-	1,747
OTHER TAXES AND LICENSES	$ 16,596	$ 24,062	$ 16,302	$ 5,129	$ 17,361	$ 3,636	$ 8,108

Source: U. S. Bureau of the Census, "State Tax Collections in 1954", and Pennsylvania Liquor Control Board.
(1)Preliminary data.

Table 23

REVENUES FROM MAJOR TAXES AS PERCENTAGES OF TOTAL STATE GOVERNMENT TAX COLLECTIONS

Fiscal Year, 1954

	Calif.	N. Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N. C.
TOTAL TAX COLLECTIONS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PERSONAL INCOME TAXES	7.75	30.95	-	-	-	-	21.84	13.17
GENERAL SALES	37.33	-	5.64	44.56	33.59	38.21	-	18.83
SELECTED COMMODITIES	2.27	11.75	20.47	10.79	14.95	10.56	15.17	3.52
Alcoholic Beverage Taxes	1.57	4.34	12.81	6.27	9.97	4.48	6.63	3.50
Alcoholic Beverage Licenses	.70	2.12	.89	.51	1.33	.26	.13	.02
Tobacco Taxes	-	5.29	6.77	4.01	3.65	5.82	8.41	-
CORPORATE AND OTHER BUSINESS	15.24	28.10	35.00	9.61	11.01	11.23	31.02	26.49
Corporate Net Income Taxes	10.13	18.02	18.57	-	-	-	23.66	12.86
Corporation Capital Tax	.04	.11	9.61	6.57	2.03	.86	.24	2.05
Other Business Taxes	5.07	9.97	6.82	3.04	8.98	10.37	7.12	11.58
MOTOR VEHICLES	25.94	19.52	29.79	22.65	33.95	34.57	22.46	33.69
Motor Fuels Taxes	18.55	9.76	20.25	13.73	21.04	21.30	16.41	25.73
Motor Vehicles	7.39	9.76	9.54	8.92	12.91	13.27	6.05	7.96
DEATH AND GIFT	2.06	2.58	5.46	1.64	1.19	2.23	4.39	1.55
PARI-MUTUEL	1.77	4.29	-	1.19	.99	2.58	2.65	-
OTHER TAXES AND LICENSES	7.64%	2.81%	3.64%	9.56%	4.32%	.62%	2.47%	2.75%

Source: See Table 22

Table 23 (Continued)

REVENUES FROM MAJOR TAXES AS PERCENTAGES OF TOTAL STATE GOVERNMENT TAX COLLECTIONS

Fiscal Year, 1954

	Ind.	Wisc.	Va.	N. J.	Md.	Conn.	W. Va.
TOTAL TAX COLLECTIONS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PERSONAL INCOME TAXES	16.79	27.25	18.57	-	15.80	-	-
GENERAL SALES	31.88	-	-	-	18.09	32.53	48.74
SELECTED COMMODITIES	11.20	8.14	10.98	18.73	3.86	10.83	14.19
Alcoholic Beverage Taxes	4.64	4.14	10.92	8.72	3.79	3.66	8.29
Alcoholic Beverage Licenses	1.84	.02	.06	.31	.07	1.87	.88
Tobacco Taxes	4.72	3.98	-	9.70	-	5.30	5.02
CORPORATE AND OTHER BUSINESS	4.04	24.72	26.99	14.50	15.67	25.85	4.17
Corporate Net Income Tax	-	18.32	10.38	-	7.70	15.33	-
Corporation Capital Taxes	.09	.09	.39	5.41	.29	.30	.78
Other Business Taxes	3.95	6.31	16.22	9.09	7.68	10.22	3.39
MOTOR VEHICLES	28.96	27.80	34.80	47.84	31.18	22.83	24.35
Motor Fuels Taxes	18.67	14.75	26.82	22.06	21.01	14.74	14.93
Motor Vehicles	10.29	13.05	7.98	25.78	10.17	8.09	9.42
DEATH AND GIFT	1.32	2.88	.95	5.92	2.05	5.76	1.35
PARI-MUTUEL	-	-	-	10.46	3.77	-	1.27
OTHER TAXES AND LICENSES	5.81%	9.21%	7.71%	2.55%	9.58%	2.20%	5.93%

Source: See Table 22

Table 23-A

PER CAPITA[1] STATE GOVERNMENT TAX REVENUES
(Including Liquor Store profits)[2]
Fiscal Year, 1954

	Calif.	N.Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N.C.
TOTAL TAX COLLECTIONS	$101.92	$74.46	$61.56	$94.54	$66.98	$60.63	$66.85	$70.30
PERSONAL INCOME TAXES	7.90	23.05	-	-	-	-	14.60	9.26
GENERAL SALES	38.64	-	3.47	42.13	22.50	23.17	-	13.24
SELECTED COMMODITIES	2.31	8.75	12.60	10.20	10.01	6.40	10.14	2.48
Alcoholic Beverage Taxes	1.60	3.23	7.88	5.93	6.68	2.72	4.43	2.46
Alcoholic Beverage Licenses	.71	1.58	.55	.48	.89	.16	.09	.02
Tobacco Taxes	-	3.94	4.17	3.79	2.44	3.52	5.62	-
CORPORATE AND OTHER BUSINESS	15.53	20.93	21.54	9.08	7.38	6.81	20.74	18.62
Corporate Net Income Tax	10.32	13.42	11.43	-	-	-	15.82	9.04
Corporation Capital Taxes	.04	.08	5.91	6.21	1.36	.52	.16	1.44
Other Business Taxes	5.17	7.43	4.20	2.87	6.02	6.29	4.76	8.14
MOTOR VEHICLES	26.44	14.53	18.34	21.41	22.74	20.96	15.01	23.68
Motor Fuels Taxes	18.91	7.27	12.47	12.98	14.10	12.92	10.97	18.09
Motor Vehicles	7.53	7.26	5.87	8.43	8.64	8.04	4.04	5.59
DEATH & GIFT	2.09	1.92	3.36	1.55	.79	1.35	2.94	1.09
PARI-MUTUEL	1.80	3.19	-	1.12	.66	1.56	1.77	. -
OTHER TAXES & LICENSES	$ 7.81	$ 2.09	$ 2.25	$ 9.05	$ 2.90	$ .38	$ 1.65	$ 1.93

Source: U. S. Bureau of the Census, "State Tax Collections in 1954", and Pennsylvania Liquor Control Board

(1) 1953 Population
(2) Preliminary data

Table 23-A (Cont'd)

PER CAPITA(1) STATE GOVERNMENT TAX REVENUES
(Including Liquor Store profits)(2)
Fiscal Year, 1954

	Ind.	Wisc.	Va.	N.J.	Md.	Conn.	W.Va.
TOTAL TAX COLLECTIONS	$69.13	$74.27	$59.62	$39.11	$71.35	$76.46	$70.75
PERSONAL INCOME TAXES	11.61	20.24	11.07	-	11.28	-	-
GENERAL SALES	22.04	-	-	-	12.91	24.87	34.49
SELECTED COMMODITIES	7.74	6.05	6.55	7.32	2.75	8.28	10.04
Alcoholic Beverage Taxes	3.21	3.07	6.51	3.41	2.71	2.80	5.86
Alcoholic Beverage L censes	1.27	.02	.04	.12	.04	1.43	.62
Tobacco Taxes	3.26	2.96	-	3.79	-	4.05	3.56
CORPORATE AND OTHER BUSINESS	2.79	18.36	16.09	5.67	11.18	19.76	2.95
Corporate Net Income Tax	-	13.60	6.19	-	5.49	11.72	-
Corporation Capital Taxes	.06	.07	.23	2.12	.21	.22	.55
Other Business Taxes	2.73	4.69	9.67	3.55	5.48	7.82	2.40
MOTOR VEHICLES	20.02	20.64	20.75	18.71	22.25	17.46	17.22
Motor Fuels Taxes	12.91	10.96	15.99	8.63	14.99	11.27	10.56
Motor Vehicles	7.11	9.68	4.76	10.08	7.26	6.19	6.66
DEATH & GIFT	.91	2.14	.57	2.32	1.46	4.40	.96
PARI-MUTUEL	-	-	-	4.09	2.69	-	.90
OTHER TAXES & LICENSES	$ 4.02	$ 6.84	$ 4.59	$ 1.00	$ 6.83	$ 1.69	$ 4.19

Table 24

THE PATTERN OF MAJOR TYPES OF STATE TAXATION, 1932-1954

	General Sales			General Personal Net Income			Corporate Income			Cigarette			Pari-Mutuel		
	1932	1942	1954	1932	1942	1954	1932	1942	1954	1932	1942	1954	1932	1942	1954
Alabama		x	x		x	x		x	x	x	x	x			
Arizona		x	x		x	x	x	x	x		x	x		x	x
Arkansas		x	x	x	x	x	x	x	x	x	x	x		x	x
California		x	x		x	x		x	x					x	x
Colorado		x	x		x	x		x	x						x
Connecticut			x				x	x	x		x	x			
Delaware	x	x	x	x	x	x						x		x	x
Florida			x									x	x	x	x
Georgia			x	x	x	x	x	x	x	x	x	x			
Idaho				x	x	x	x	x	x			x			
Illinois		x	x	x							x	x		x	x
Indiana		x	x									x			
Iowa		x	x		x	x		x	x	x	x	x			
Kansas		x	x		x	x		x	x	x	x	x			
Kentucky					x	x		x	x		x	x			x
Lousiana		x	x		x	x		x	x	x	x	x		x	x
Maine			x								x	x		x	x
Maryland			x		x	x		x	x				x	x	x
Massachusetts				x	x	x	x	x	x		x	x		x	x
Michigan		x	x									x			x
Minnesota					x	x		x	x			x			
Mississippi	x	x	x	x	x	x	x	x	x	x	x	x			
Missouri		x	x	x	x	x	x	x	x						
Montana					x	x	x	x	x			x			
Nebraska												x			
Nevada												x			x
New Hampshire											x	x	x	x	x

Table 24 (Continued)

THE PATTERN OF MAJOR TYPES OF STATE TAXATION, 1932-1954

	General Sales			General Personal Net Income			Corporate Income			Cigarette			Pari-Mutuel		
	1932	1942	1954	1932	1942	1954	1932	1942	1954	1932	1942	1954	1932	1942	1954
New Jersey												x		x	x
New Mexico		x	x		x	x		x	x			x			x
New York				x	x	x	x	x	x		x	x		x	x
North Carolina		x	x	x	x	x	x	x	x						
North Dakota		x	x	x	x	x	x	x	x	x	x	x			
Ohio		x	x							x	x	x		x	x
Oklahoma		x	x	x	x	x	x	x	x		x	x			
Oregon				x	x	x	x	x	x		x			x	x
PENNSYLVANIA	x[1]	x[1]	x[2]					x	x		x	x			
Rhode Island			x						x		x	x		x	x
South Carolina			x	x	x	x	x	x	x	x	x	x			
South Dakota		x	x						x	x	x	x		x	x
Tennessee			x				x	x	x	x	x	x			
Texas										x	x	x			
Utah		x	x	x	x	x	x	x	x	x	x	x			
Vermont				x	x	x	x	x	x		x	x			
Virginia	x	x	x	x	x	x	x	x	x						
Washington		x	x								x	x		x	x
West Virginia		x	x									x		x	x
Wisconsin				x	x	x	x	x	x		x	x			
Wyoming		x	x									x			
Number of States Using Tax	4	26	34	18	29	29	19	31	33	14	29	41	3	19	24
Collections (in millions)	$10	$637	2.536	$74	$249	1.004	$79	$269	772	$19	$131	464	N.A.	$23	177

Source: Commerce Clearing House, Inc., and U. S. Bureau of Census

[1]Retail sales tax was a temporary measure effective for only six months starting September 1, 1932. The mercantile license tax was withdrawn in 1944.

[2]Enacted 1953. Efective September 1, 1953 to August 31, 1955.

Table 25

THE GENERAL FUND REVENUES

IN THE 1953-1955 BIENNIUM BUDGET
(Estimates in millions)

Source	Amount	Percent of Total
Consumer Commodities	$363.4	38.4%
Alcohol Taxes and Profits	172.7	18.3
Sales Tax for School Purposes	103.0	10.8
Cigarette Tax	87.7	9.3
Corporation Taxes	364.5	38.6
Corporate Income	236.1	25.0
Capital Stock-Franchise	117.7	12.5
Corporate Excise	7.6	0.8
Corporate Loan	3.1	0.3
Utility, Insurance, and Bank Taxes	61.8	6.5
Inheritance Tax	65.6	7.0
Realty Transfer Tax	31.3	3.3
Miscellaneous Taxes	.....	.....
Other Revenues	58.2	6.2
Total Revenues	$944.8*	100.0%

Source: State Budget Bureau data are rounded.
Federal aid is excluded.

* Does not include $17 million cash carry over from the previous biennium.

GENERAL FUNCTION REVENUES

The importance of these types of taxation varies from state to state. A table of "general function" state tax revenues has been prepared which shows the distribution of tax revenues in the group of 15 states in 1954 from sources which support public education and the other General Fund services in Pennsylvania. In some states, although this is not true in Pennsylvania, a part of the highway user taxes may be devoted to such services. In those states it is therefore necessary to include such revenues from the motor vehicle and motor vehicle fuel taxes in the "general function" revenues.

In the percentages of "general function" revenues derived from the major sources in 1953, Pennsylvania ranked as follows among the 15 states:

Revenue	Rank	Percentage
Alcholic Beverages	1st	23.07
Cigarettes	3rd	8.88
Corporations	1st	39.73
Inheritance Taxes	3rd	6.53

THE PENNSYLVANIA STATE AND LOCAL TAX SYSTEM

The sources of Pennsylvania state and local tax revenue are shown in Table 28 for 1953. The local property tax was far and away the biggest source of revenue, yielding $470 million of the total local taxes of $610 million. The aggregate state taxes were somewhat less, or $595 million. At the state level, the corporation, alcohol, cigarette, and death taxes were heavily exploited.

The overall Federal, state, and local government tax sources in 1953 are summarized in Table 29. It is evident that the personal income tax is the major source of Federal revenue, with the corporation income tax ranking next. The states lean most heavily on general sales taxes, then the gasoline tax. For the local governments, the property tax is the most important source of revenue. As the data in Table 29 reveal, the taxes of great productivity are limited in number.

Prior to the fiscal year 1954, Pennsylvania lacked a general broad-based tax, that is, some type of general sales or personal income tax. That was one of the significant differences in taxation in Pennsylvania and most other states. The state came into the broad-based tax field during the 1954 fiscal year as a result of legislation adopted in 1953. When the temporary retail sales tax expires on August 31, 1955, if it is not re-enacted, Pennsylvania will again be a member of the small group of six states lacking both a general sales tax and a personal income tax.

Table 26

GENERAL FUNCTION REVENUES
FROM
STATE TAXES AND LIQUOR STORE PROFITS*
Fiscal Year, 1953 (In thousands)

	N. Y.	Calif.	Mich.	Pa.	Ill.	Ohio	Mass.	Wisc.
TOTAL TAXES AND LIQUOR PROFITS	$964,092	$949,529	$487,195	$507,842	$349.616	$358,505	$205,516	$190,750
PERSONAL INCOME	337,044	94,324	-	-	-	-	74,611	64,018
GENERAL SALES	-	461,817	271,766	-	205,475	188,971	-	-
SELECTED COMMODITIES	108,470	19,565	80,514	162,351	55,207	82,955	50,155	23,147
Alcoholic Beverage Taxes	46,861	19,565	7,392	45,519	24,340	33,716	21,791	12,518
Liquor Store Profits	-	-	47,382	71,656	-	28,439	-	-
Cigarette Taxes	61,609	-	25,740	45,103	30,867	20,800	28,364	10,629
Soft Drink Tax	-	-	-	73	-	-	-	-
CORPORATE AND OTHER BUSINESS	333,409	176,204	83,891	250,494	56,493	56,265	49,967	66,497
Corporate Net Income Tax	225,720	119,107	-	142,467	-	-	24,653	51,171
Corporation Capital Taxes	2,064	521	65,516	59,311	4,364	10,099	836	254
Other Business Taxes	105,625	56,576	18,375	48,716	52,129	46,166	24,478	15,072
MOTOR VEHICLES	84,868	67,746	-	-	1,524	-	913	5,262
Motor Fuels Taxes[1]	49,374	-	-	-	1,355	-	679	3,082
Motor Vehicles[1]	35,494	67,746	-	-	169	-	234	2,180
DEATH AND GIFT	30,044	21,874	8,213	33,176	12,437	4,605	12,212	7,854
PARI - MUTUEL	38,502	21,186	5,430	-	14,901	2,690	9,683	-
OTHER TAXES AND LICENSES	$ 31,755	$ 86,813	$ 37,381	$ 61,821	$ 3,579	$ 23,019	$ 7,975	$ 23,972

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1953.

*Excluding Federal Aid
[1]Source: U. S. Bureau of Public Roads, 1953

Table 26 (Cont'd)

GENERAL FUNCTION REVENUES
FROM
STATE TAXES AND LIQUOR STORE PROFITS*
Fiscal Year, 1953 (In thousands)

	N. C.	Ind.	Va.	N. J.	Md.	Conn.	W. Va.
TOTAL TAXES AND LIQUOR PROFITS	$193,986	$201,882	$132,510	$124,637	$117,288	$ 99,678	$105,323
PERSONAL INCOME	37,385	-	33,849	-	24,679	-	-
GENERAL SALES	55,198	142,401	-	-	31,357	37,098	64,728
SELECTED COMMODITIES	10,964	27,000	25,624	36,366	6,261	14,720	24,193
Alcoholic Beverage Taxes	10,964	13,233	8,266	16,691	6,261	5,920	3,604
Liquor Store Profits	-	-	17,358	-	-	-	10,190
Cigarette Taxes	-	13,767	-	19,675	-	8,800	7,341
Soft Drink Tax	-	-	-	-	-	-	3,058
CORPORATE AND OTHER BUSINESS	76,094	10,847	54,132	27,673	30,601	36,060	5,244
Corporate Net Income Tax	38,429	-	20,634	-	16,304	19,858	-
Corporation Capital Taxes	5,690	128	769	10,951	504	427	846
Other Business Taxes	31,975	10,719	32,729	16,722	13,793	15,775	4,398
MOTOR VEHICLES	2,829	1,044	-	26,521	-	-	-
Motor Fuels Taxes[1]	2,712	1,044	-	13,113	-	-	-
Motor Vehicles[1]	117	-	-	13,408	-	-	-
DEATH AND GIFT	3,462	4,450	2,981	10,990	3,879	8,706	1,301
PARI-MUTUEL	-	-	-	18,663	6,194	-	1,688
OTHER TAXES AND LICENSES	$ 8,054	$ 16,140	$ 15,924	$ 4,424	$ 14,317	$ 3,094	$ 8,169

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1953.

*Excluding Federal Aid
[1]Source: U. S. Bureau of Public Roads, 1953

Table 27

GENERAL FUNCTION REVENUES FROM STATE TAXES AND LIQUOR STORE PROFITS

Percentages of Total

Fiscal Year, 1953

	N. Y.	Calif.	Mich.	Va.	Ill.	Ohio	Mass.	Wisc.
TOTAL TAXES AND LIQUOR PROFITS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PERSONAL INCOME	34.96	9.93	-	-	-	-	36.30	33.56
GENERAL SALES	-	48.64	55.78	-	58.77	52.71	-	-
SELECTED COMMODITIES	11.25	2.06	16.53	31.97	15.79	23.14	24.40	12.13
Alcoholic Beverage Taxes	4.86	2.06	1.52	8.96	6.96	9.40	10.60	6.56
Liquor Store Profits	-	-	9.73	14.11	-	7.93	-	-
Cigarette Taxes	6.39	-	5.28	8.88	8.83	5.81	13.80	5.57
Soft Drink Tax	-	-	-	.02	-	-	-	-
CORPORATE AND OTHER BUSINESS	34.58	18.56	17.22	49.33	16.16	15.69	24.32	34.86
Corporate Net Income Tax	23.41	12.54	-	28.05	-	-	12.00	26.83
Corporation Capital Taxes	.21	.06	13.45	11.68	1.25	2.82	.41	.13
Other Business Taxes	10.96	5.96	3.77	9.60	14.91	12.87	11.91	7.90
MOTOR VEHICLES	8.80	7.13	-	-	.44	-	.44	2.76
Motor Fuel Taxes	5.12	-	-	-	.39	-	.33	1.62
Motor Vehicles	3.68	7.13	- -	-	.05	-	.11	1.14
DEATH AND GIFT	3.12	2.30	1.69	6.53	3.56	1.28	5.94	4.12
PARI-MUTUEL	3.99	2.23	1.11	-	4.26	.75	4.71	-
OTHER TAXES AND LICENSES	3.30%	9.15%	7.67%	12.17%	1.02%	6.43%	3.89%	12.57%

Table 27 (Continued)

GENERAL FUNCTION REVENUES FROM STATE TAXES AND LIQUOR STORE PROFITS

Percentages of Total

Fiscal Year, 1953

	N. C.	Ind.	Va.	N. J.	Md.	Conn.	W. Va.
TOTAL TAXES AND LIQUOR PROFITS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PERSONAL INCOME	19.27	-	25.54	-	21.04	-	-
GENERAL SALES	28.45	70.54	-	-	26.74	37.22	61.46
SELECTED COMMODITIES	5.65	13.37	19.34	29.18	5.34	14.77	22.97
Alcoholic Beverage Taxes	5.65	6.55	6.24	13.39	5.34	5.94	3.42
Liquor Store Profits	-	-	13.10	-	-	-	9.67
Cigarette Taxes	-	6.82	-	15.79	-	8.83	6.97
Soft Drink Tax	-	-	-	-	-	-	2.91
CORPORATE AND OTHER BUSINESS	39.23	5.37	40.85	22.20	26.09	36.18	4.98
Corporate Net Income Tax	19.81	-	15.57	-	13.90	19.92	-
Corporation Capital Taxes	2.93	.06	.58	8.79	.43	.43	.80
Other Business Taxes	16.47	5.31	24.70	13.41	11.76	15.83	4.18
MOTOR VEHICLES	1.46	.52	-	21.28	-	-	-
Motor Fuels Taxes	1.40	.52	-	10.52	-	-	-
Motor Vehicles	.06	-	-	10.76	-	-	-
DEATH AND GIFT	1.78	2.20	2.25	8.82	3.31	8.73	1.24
PARI-MUTUAL	-	-	-	14.97	5.28	-	1.60
OTHER TAXES AND LICENSES	4.16%	8.00%	12.02%	3.55%	12.20%	3.10%	7.75%

Source: For sources and footnotes see table 26

CHART 8

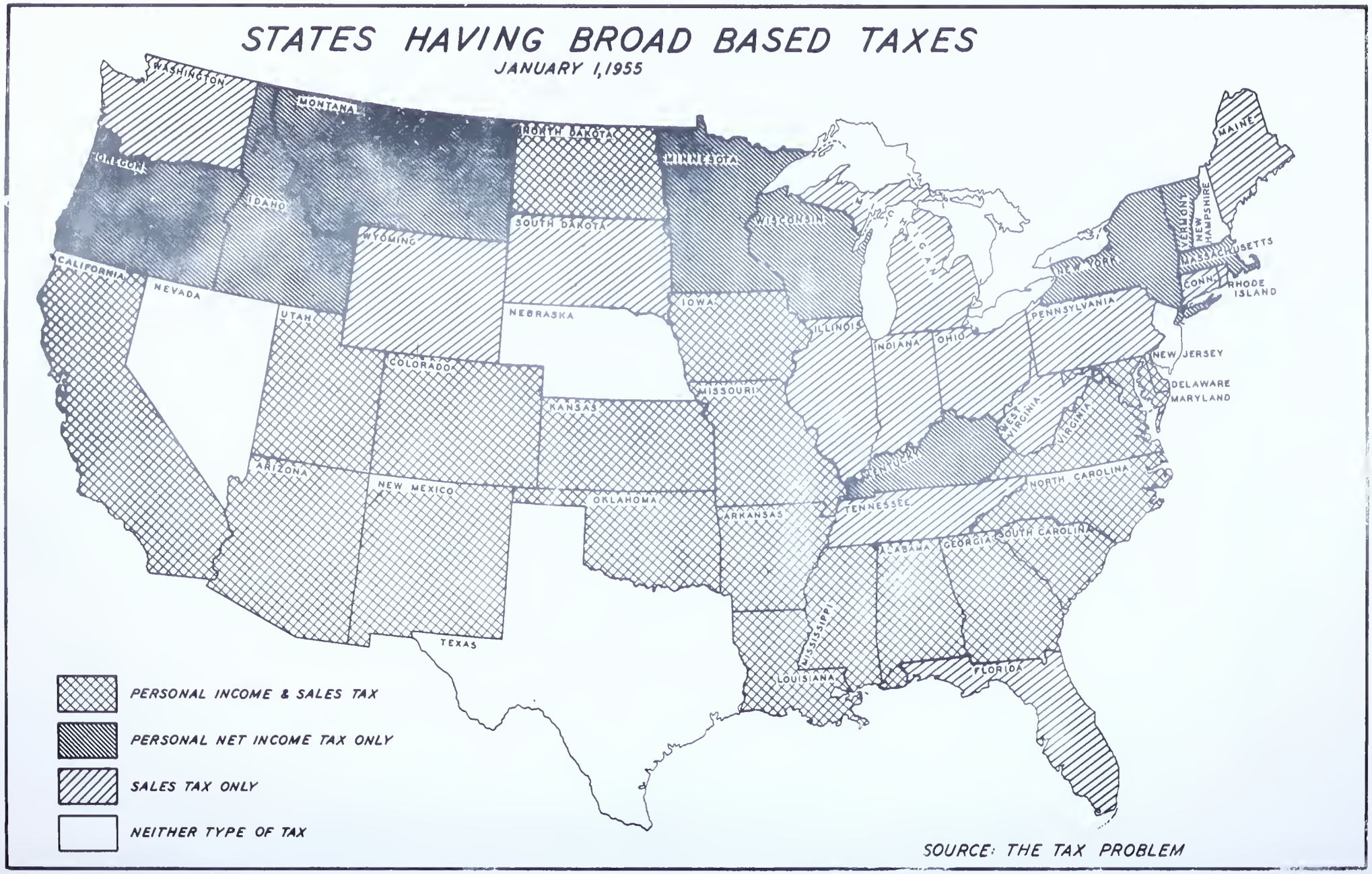

STATES HAVING BROAD BASED TAXES
JANUARY 1, 1955
WASHINGTON
MONTANA
NORTH DAKOTA
MINNESOTA
OREGON
IDAHO
SOUTH DAKOTA
WISCONSIN
WYOMING
CALIFORNIA
NEVADA
UTAH
NEBRASKA
IOWA
COLORADO
KANSAS
MISSOURI
ARIZONA
NEW MEXICO
OKLAHOMA
ARKANSAS
TEXAS
LOUISIANA
MISSISSIPPI
ALABAMA
GEORGIA
FLORIDA
TENNESSEE
KENTUCKY
ILLINOIS
INDIANA
OHIO
MICHIGAN
NEW YORK
PENNSYLVANIA
WEST VIRGINIA
VIRGINIA
NORTH CAROLINA
SOUTH CAROLINA
MAINE
VERMONT
NEW HAMPSHIRE
MASSACHUSETTS
CONN.
RHODE ISLAND
NEW JERSEY
DELAWARE
MARYLAND
PERSONAL INCOME & SALES TAX
PERSONAL NET INCOME TAX ONLY
SALES TAX ONLY
NEITHER TYPE OF TAX
SOURCE: THE TAX PROBLEM

Table 28

PENNSYLVANIA STATE AND LOCAL TAX REVENUES
(Excluding Social Security Taxes)

Tax	Amount in Millions State Fiscal Year 1953	Amount in Millions Local Fiscal Year 1953	Percent of Total State	Percent of Total Local
Personal Income	$ -	$ -[1]	-%	-%
Corporation Income	142.5	-	21.4	-
Other Corporations	59.3	-[2]	8.9	-
Death and Gift	33.2	-	5.0	-
Alcohol Taxes and Profits	117.2	-	17.6	-
Tobacco	45.1	-	6.8	-
Gasoline	121.5	-	18.2	-
Amusements	-	7.2	-	1.2
General Sales	-	2.9	-	.4
Property	1.5	470.6	.2	77.2
Other	146.2[3]	129.1[4]	21.9	21.2
Total	$666.5	$609.8	100.0%	100.0%

Source: For State, Compendium of Government Finances in 1953.
For Local, State and Local Government Revenue in 1953.

[1] Included in other local.
[2] Includes capital stock, franchise, bonus, and loans taxes.
[3] Includes special business, motor vehicle, and other taxes.
[4] Includes per capita, mercantile, and other non-property taxes.

Table 29

FEDERAL, STATE AND LOCAL TAX REVENUES, FISCAL YEAR, 1953[3]

Tax	Amount in Millions			Percent of Total		
	Federal	State	All Local	Federal	State	All Local
Personal Income	$29,784	$ 969	$ 85	47.7%	9.2%	.9%
Corporation Income	21,239	810	8	34.0	7.7	-[1]
Death and Gift	881	222	3	1.4	2.1	-
Alcohol	2,723[5]	545[5]	-[2]	4.4	5.2	-[2]
Tobacco	1,652	467	-[2]	2.6	4.4	-[2]
Gasoline	891	2,017	-[2]	1.4	19.1	-[2]
Amusements	416[6]	18[7]	-[2]	0.7	.2	-[2]
General Sales	-	2,433	369	-	23.1	3.9
Property	-	365	8,282	-	3.5	87.5
Other Selective Excises	4,825[8]	804	258	7.8	7.6	2.7
Other	-	1,892	461	-	17.9	5.0
Total	$62,411	$10,542	$9,466	100.0%	100.0%	100.0%

Source: U. S. Treasury Dept. - "Overlapping Taxes in the U. S." - The Commission on Intergovernmental relations - 1-1-54.

[1]Less than .05 per cent.
[2]Amounts not available - see "other selective excises".
[3]Exclusive of social insurance contributions. Tax collections include penalties and interest but are net of refunds which are substantial in amount in the case of Federal income taxes and State gasoline taxes.
[4]Local tax revenues for fiscal year 1952 includes collections for Washington, D. C.
[5]Includes, in addition to excises, Federal occupational or special taxes amounting to $21.5 million and State licenses amounting to $79 million.
[6]Includes taxes on admissions to theaters, concerts, cabarets, etc., club dues and initiation fees, bowling alleys, pool tables, and coin-operated devises.
[7]Includes both excises and licenses but does not include amounts collected from admissions by the 17 states which tax admissions under general sales tax.
[8]Includes customs duties which amount to $596 million.

CHAPTER III

THE TAX BURDEN IN PENNSYLVANIA

Taxes are paid out of funds which would otherwise be saved or spent, by sacrificing income, capital, or expenditures. If governments employ the people's funds more effectively than the people would individually, in increasing the economic resources and social welfare of the community, the tax dollars are well spent. If governments are inefficient and wasteful, however, the tax dollars are wasted. Realizing this, the framers of the original Pennsylvania constitution of 1776 included this admonition in that memorable document, "The purpose for which any tax is raised ought to appear clearly to the legislature to be of more service to the community than the money would be, if not collected."

In previous chapters the public services undertaken by the state government in Pennsylvania and the expenditures upon them have been noted, along with local government expenditures and taxes. The nature of the state and local tax system of Pennsylvania has also been outlined. In this chapter it will be desirable to indicate the amounts of taxation paid in Pennsylvania in relation to population, income, and economic activity and to compare the state and local taxes paid in this state with those in other leading states.

THE ECONOMY AND TAXABLE CAPACITY

The taxable capacity of a state depends upon (1) its economic and financial resources in relation to the population, (2) the growth and prosperity of the community, (3) the willingness of the people to support their government, and (4) the nature of the taxes employed.

The recurring biennial financial crises in Pennsylvania are not due to a lack of economic and financial resources. This is a great and growing industrial, commercial, financial, and agricultural community, ranking high in wealth, income, employments, consumption, and economic activity. Any unfavorable developments in particular industries and localities are more than counterbalanced by the continuing growth and hopeful outlook over the state generally.

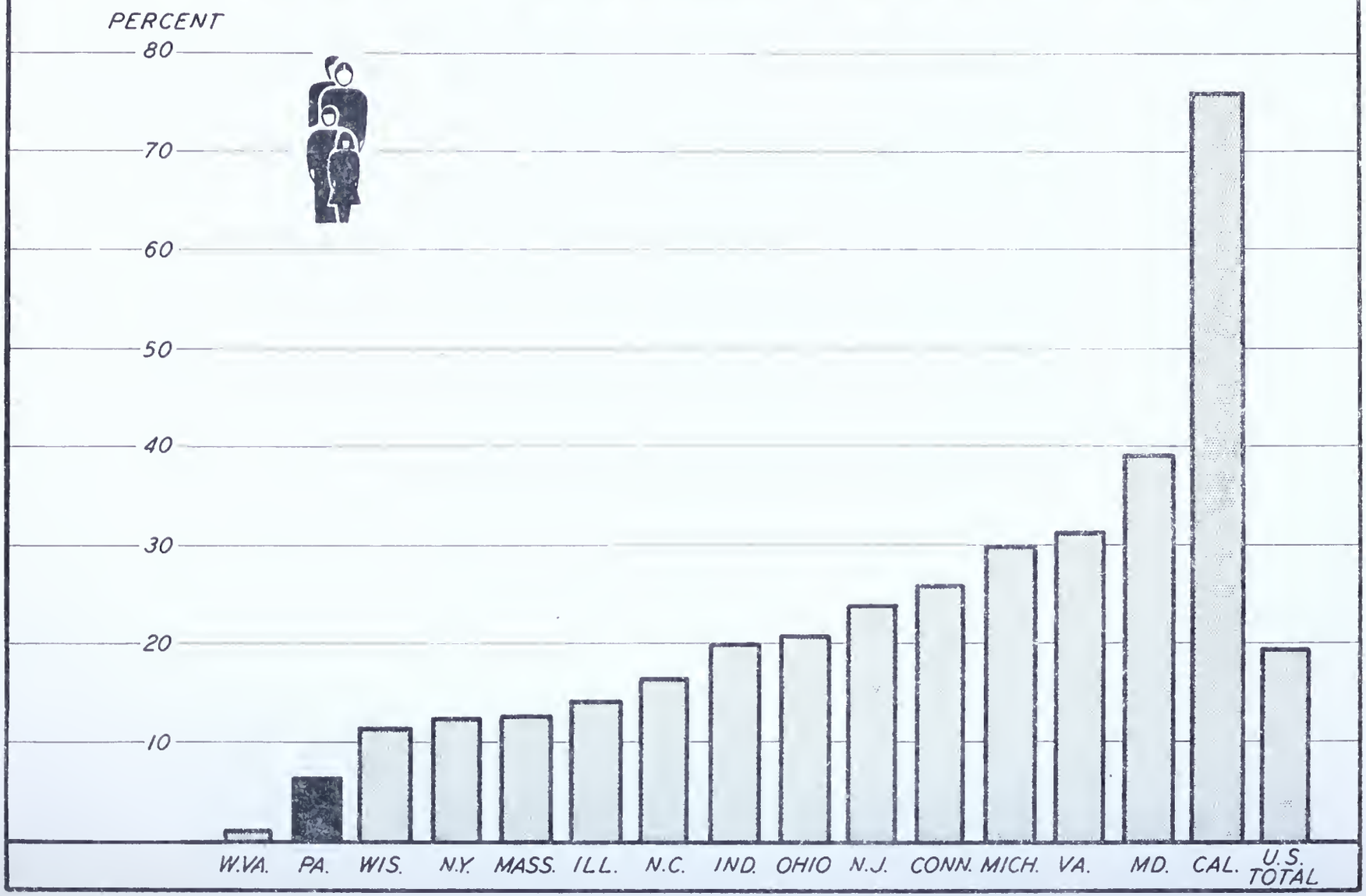
As one of the mature Eastern states, Pennsylvania may not be growing in population and economic activity so rapidly as many of the younger and less developed states. But Pennsylvania is still growing and generally prospering, and the incomes of the citizens and their levels of living are still rising.

POPULATION GROWTH

Pennsylvania continues to rank after New York and California in population and is still the third most populous state in the nation. Pennsylvania's share of the total population is gradually declining, however, dropping from 8.3 per cent in 1900 to 7.5 per cent in 1940 and to 6.8 per cent in 1953. Our population increased only 7.6 per cent from 1940 to 1953, as compared with an average increase of 19.5 per cent for the United States as a whole. Among the 15 leading states whose finances are being

CHART 9

POPULATION ESTIMATES - 1953
PERCENT INCREASE OVER 1940



INCOME PAYMENTS TO INDIVIDUALS - 1953

PERCENT INCREASE OVER 1940

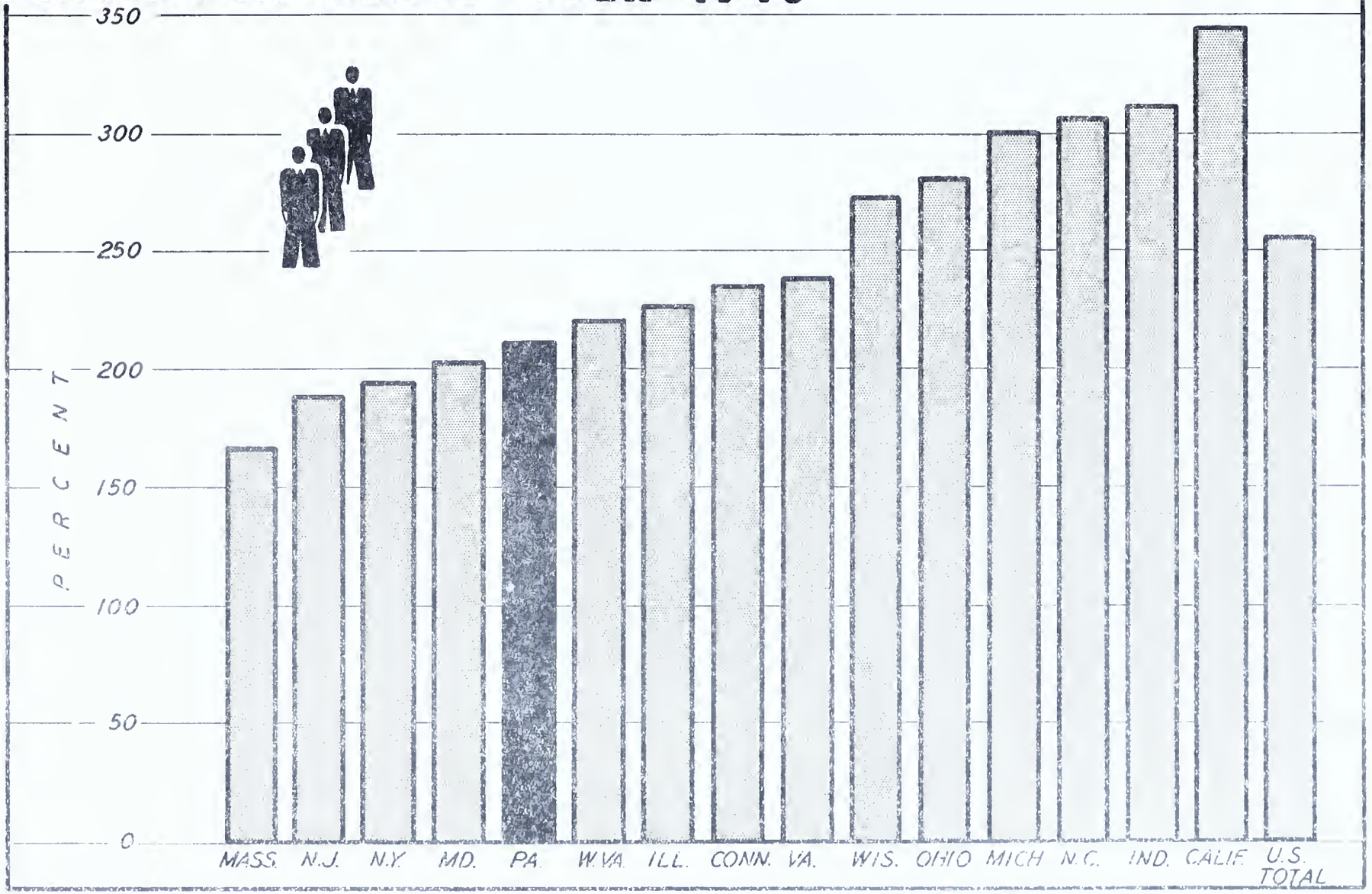


Table 30

POPULATION ESTIMATES, 1953

POPULATION			PERCENT INCREASE OVER 1940		
RANK	STATE	POPULATION	RANK	STATE	PER CENT INCREASE
	U. S. Total	157,465,000		U. S. Total	19.5%
1st	New York	15,233,000	1st	California	76.4
2nd	California	12,190,000	2nd	Maryland	39.5
3rd	Pennsylvania	10,656,000	3rd	Virginia	32.4
4th	Illinois	9,003,000	4th	Michigan	30.3
5th	Ohio	8,369,000	5th	Connecticut	26.5
6th	Michigan	6,852,000	6th	New Jersey	23.5
7th	New Jersey	5,141,000	7th	Ohio	21.7
8th	Massachusetts	4,900,000	8th	Indiana	20.6
9th	North Carolina	4,193,000	9th	North Carolina	17.3
10th	Indiana	4,136,000	10th	Illinois	14.0
11th	Virginia	3,547,000	11th	Massachusetts	13.5
12th	Maryland	2,541,000	12th	New York	13.0
13th	Wisconsin	3,518,000	13th	Wisconsin	12.1
14th	Connecticut	2,162,000	14th	Pennsylvania	7.6
15th	West Virginia	1,937,000	15th	West Virginia	1.8

Source: U. S. Bureau of the Census, "Statistical Abstract of the United States, 1951," and "State Tax Collections in 1954."

compared in this study, Pennsylvania ranked 14th in the rate of population increase, as shown in Table 30. Here, as in other states, the greatest population growth has occured in the suburban areas surrounding cities. Additional data on population trends will be included in the Appendix.

INCOME GROWTH

As in population, Pennsylvania ranked third among the 48 states in 1953 in income payments, having a total of $19.4 billion. (See Table 31.)

Our per capita income payments were $1,822 as compared with an average of $1,707 for the United States. In this respect, we ranked 13th among the 48 states. Among the 15 selected states, we ranked 10th in per capita income payments.

Total income payments increased 211.9 per cent in Pennsylvania from 1940 to 1953 but 256.7 per cent for the nation. We ranked 11th among the 15 states in the percentage increase.

Per capita income payments increased 189.7 per cent in Pennsylvania from 1940 to 1953, as compared with 196.9 per cent for the United States. Among the 15 states, Pennsylvania ranked 8th in the percentage increase of per capita income payments over 1940.

Some of the greatest relative gains in income payments have occurred in the low income states of the South. In Mississippi, for example, per capita income payments expanded from $204 in 1940 to $834 in 1953. Among the 15 selected states, the greatest relative increase in per capita income payments was found in Virginia, with a growth of 284.7 per cent from 1940 to 1953. Several states in this group with higher per capita income payments than Pennsylvania, however, enjoyed a relatively smaller increase from 1940 to 1953.

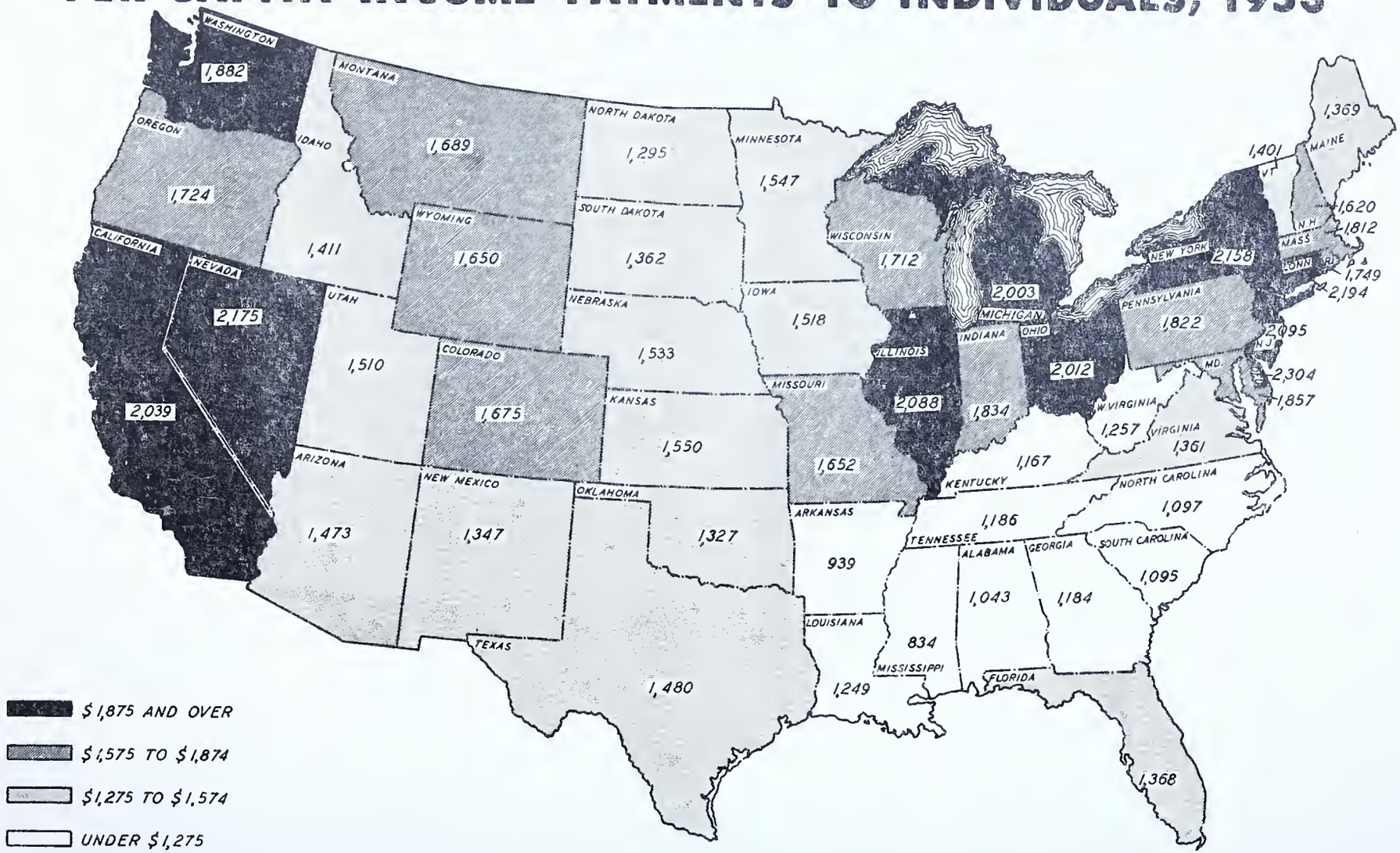
Manufacturing payrolls are the major source of income payments in Pennsylvania, amounting to 33.0 per cent of the total in 1953. Among the 15 states, only Michigan, Connecticut, Ohio, Indiana, and New Jersey --- ranked in the order of their importance --- obtained relatively more of their income payments from this source. Additional income data are presented in the Appendix.

VALUE ADDED IN MANUFACTURING

Trends in manufacturing output are measured by the Bureau of the Census in terms of value added in manufacturing. In 1952, Pennsylvania manufacturing added $9.7 billion to the value of production, ranking third among the 48 states. New York ranked first among the states, with an output valued at $13.1 billion. Ohio was second, with a value added of $10.0 billion. Illinois had nearly caught up with Pennsylvania, with an output valued at $9.3 billion.

CHART 10

PER CAPITA INCOME PAYMENTS TO INDIVIDUALS, 1953



SOURCE: U.S. DEPT. OF COMMERCE

Table 31

INCOME PAYMENTS TO INDIVIDUALS, 1953

Total Income Payments

(Millions of dollars)

Rank	State	Amount	Rank	State	Percent Increase Over 1940
	United States, Total	$270,577		United States, Total	256.7
1st	New York	32,871	1st	Califonria	343.3
2nd	California	24,856	2nd	Indiana	308.1
			3rd	North Carolina	306.6
3rd	PENNSYLVANIA	19,419	4th	Michigan	300.6
			5th	Ohio	278.5
4th	Illinois	18,800	6th	Wisconsin	271.3
5th	Ohio	16,840	7th	Virginia	237.9
6th	Michigan	13,723	8th	Connecticut	234.7
7th	New Jersey	10,771	9th	Illinois	227.5
8th	Massachusetts	8,880	10th	West Virginia	220.4
9th	Indiana	7,584			
10th	Wisconsin	6,023	11th	PENNSYLVANIA	211.9
11th	Virginia	4,829			
12th	Connecticut	4,744	12th	Maryland	202.1
13th	Maryland	4,719	13th	New York	192.2
14th	North Carolina	4,599	14th	New Jersey	189.3
15th	West Virginia	2,435	15th	Massachusetts	168.3

PER CAPITA INCOME PAYMENTS

Rank	State	Amount	Rank	State	Percent Increase Over 1940
	United States, Total	$ 1,707		United States, Total	196.9%
1st	Connecticut	2,194	1st	Virginia	284.7
2nd	New York	2,158	2nd	North Carolina	247.1
3rd	New Jersey	2,095	3rd	Indiana	239.0
4th	Illinois	2,088	4th	Wisconsin	231.8
5th	California	2,039	5th	West Virginia	215.0
6th	Ohio	2,012	6th	Ohio	213.4
7th	Michigan	2,003	7th	Michigan	211.0
8th	Maryland	1,857			
9th	Indiana	1,834	8th	PENNSYLVANIA	189.7
10th	PENNSYLVANIA	1,822	9th	Illinois	187.6
			10th	Connecticut	164.3
11th	Massachusetts	1,812	11th	Maryland	162.3
12th	Wisconsin	1,712	12th	New Jersey	161.5
13th	Virginia	1,361	13th	California	152.7
14th	West Virginia	1,257	14th	New York	149.8
15th	North Carolina	1,097	15th	Massachusetts	136.5

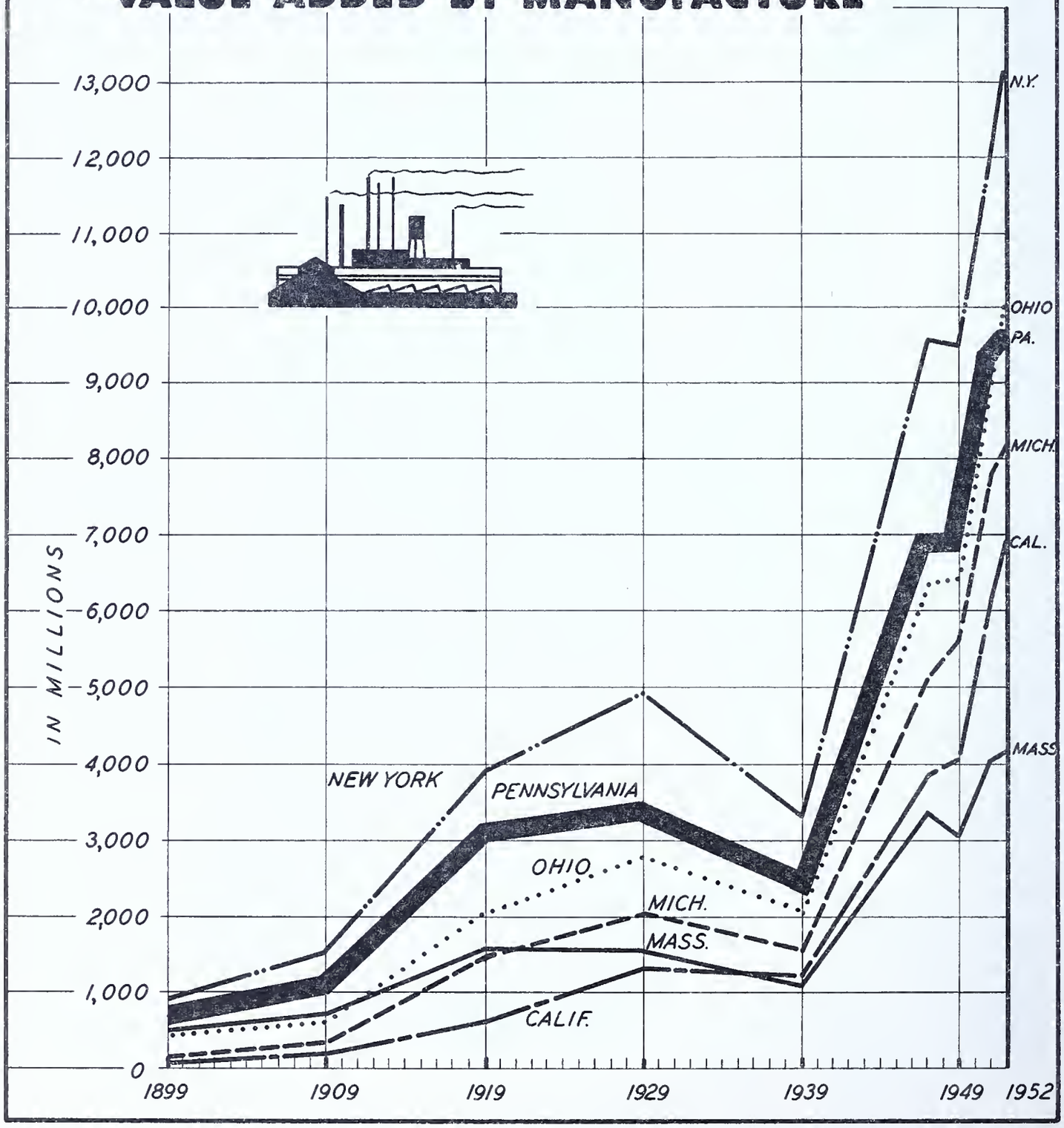
Source: U. S. Department of Commerce, "Survey of Current Business", August, 1954.

CHART II

TRENDS IN INDUSTRIAL DEVELOPMENT 1899-1952

AS INDICATED BY

"VALUE ADDED BY MANUFACTURE"



From 1899 through 1951, Pennsylvania ranked after New York in value added in manufacturing. Ohio and Illinois have been expanding their manufacturing much faster than Pennsylvania, and recently Ohio forged ahead of us.

The ratio of value added in manufacturing in Pennsylvania to the total in the country declined steadily from 1899 to 1952, falling from 14.3 per cent in 1899 to 8.9 per cent in 1952. (See the Appendix for additional data.)

The expenditures for new plant and equipment by manufacturing firms in Pennsylvania in 1952 were $916 million, much more than the similar expenditures in any other state and 11.5 per cent of the total of the nation. Ohio ranked second, spending $748 million.

RETAIL TRADE

The total retail store sales in Pennsylvania in 1953 were $11.8 billion, or 6.9 per cent of the nation's sales. New York and California surpassed us, with retail store sales of $18.8 billion and $15.2 billion respectively. Illinois was close on our heels, with sales of $11.5 billion.

Both New York and Pennsylvania have been experiencing a slower rate of increase in retail store sales than a number of the other states. The ratio of Pennsylvania sales to the total declined from 7.4 per cent in 1939 to 6.9 per cent in 1953. The New York ratio fell from 13.2 per cent to 10.9 per cent in this period. However, the Ohio ratio rose from 5.3 per cent in 1939 to 5.7 per cent and the Michigan ratio from 4.3 per cent to 4.9 per cent.

OUR ECONOMIC POSITION

The trends in the Pennsylvania economy may, in general, be characterized by continued leadership and expansion. Our rates of growth in population, income, manufacturing output, and retail sales have, however, not been so rapid as those of some of the other states.

Using data from Federal government sources, an index of economic activity has been prepared for the 15 states whose finances are being compared. Income payments, retail store sales, value added in manufacturing, and farm and mining output have been compared on a per capita basis. This measure of economic activity in 1953 indicates a level in Pennsylvania of 109.4 per cent of the average of the 48 states. Among the 15 states, Pennsylvania ranked 9th in per capita overall economic activity. Connecticut, with an index of 135.9 per cent, was at the top of the list. Virginia, with an index of 72.6 per cent, was at the bottom of the list of 15 states.

THE TAX BURDEN IN PENNSYLVANIA

The economic position of Pennsylvania has been compared with that of other leading states in a number of respects. In order to gain a better

Table 32

TOTAL STATE AND LOCAL TAX REVENUES, FISCAL YEAR 1954
(Including Liquor Store Profits)
(In thousands)

	Calif.	N.Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N.C.
TOTAL STATE TAX COLLECTIONS	1,141,517%	1,119,831%	666,451%	629,826%	520,033%	514,435%	321,734%	287,817%
PERSONAL INCOME TAXES	94,324	337,044	---	---	---	---	74,611	37,385
GENERAL SALES TAXES	461,817	---	---	271,766	188,971	205,475	---	55,198
SELECTED COMMODITIES	28,142	132,388	170,367	85,452	90,391	56,344	50,593	11,049
Alcohol Excises and Profits	19,565	46,861	117,175	54,774	62,155	24,340	21,791	10,964
Alcohol Licenses	8,577	23,918	8,016	4,938	7,436	1,137	438	85
Cigarette Taxes	---	61,609	45,103	25,740	20,800	30,867	28,364	---
Soft Drink Tax	---	---	73	---	---	---	---	---
CORPORATION AND OTHER BUSINESS	176,204	333,409	250,494	83,891	56,265	56,493	102,079	76,094
Corporate Net Income Tax	119,107	225,720	142,467	---	---	---	76,765 (2)	38,429
Corporation Capital Taxes (1)	521	2,064	59,311	65,516	10,099	4,364	836 (2)	5,690
Other Business Taxes	56,576	105,625	48,716	18,375	46,166	52,129	24,478	31,975
MOTOR VEHICLES	251,157	216,689	188,047	137,693	154,092	165,206	64,581	96,575
Motor Fuels Taxes	184,637	108,328	121,465	82,625	91,370	97,217	46,463	73,821
Motor Vehicles	66,520	108,361	66,582	55,068	62,722	67,989	18,118	22,754
DEATH AND GIFT	21,874	30,044	33,176	8,213	4,605	12,437	12,212	3,462
PARI-MUTUEL	21,186	38,502	---	5,430	2,690	14,901	9,683	---
OTHER TAXES AND LICENSES	86,813	31,755	24,367	37,381	23,019	3,579	7,975	8,054
TOTAL LOCAL TAX COLLECTIONS	1,034,519	1,734,747	610,065	420,539	483,533	704,303	475,380	110,205
Property	934,748	1,296,561	470,610	410,628	441,118	632,221	462,337	104,256
Non-Property	99,771	438,186	139,455	9,911	42,415	72,082	13,043	5,949
TOTAL STATE AND LOCAL TAX COLLECTIONS	2,176,036	2,854,578	1,276,516	1,050,365	1,003,566	1,218,738	797,114	398,022

Source: State data from U. S. Bureau of the Census, "Compendium of State Government Finances", 1953 with liquor profits included. Local data from U. S. Bureau of the Census, "State and Local Government Revenue in 1953".

(1) Corporation Capital Taxes include capital stock Taxes, franchise taxes, and corporate bonus payments related to corporate capital.

(2) Certain corporation excise taxes and surtaxes, measured in part by net income and in part by corporate excess, are included with corporate net income taxes. Information to separate these for 1953 not available.

(3) Estimated gross income tax on individual earnings from personal services.

Table 32 (Cont'd)

TOTAL STATE AND LOCAL TAX REVENUES, FISCAL YEAR 1954
(Including Liquor Store Profits)
(In thousands)

	Ind.	Wisc.	Va.	N.J.	Md.	Conn.	W.Va.
TOTAL STATE TAX COLLECTIONS	284,117%	252,885%	206,012%	189,001%	165,486%	138,306%	134,132%
PERSONAL INCOME TAXES	---	64,018	33,849	---	24,679	---	---
GENERAL SALES TAXES	142,401 (3)	---	---	---	31,357	37,098	64,728
SELECTED COMMODITIES	32,059	23,215	25,870	36,976	6,383	17,840	24,680
Alcohol Excises and Profits	13,233	12,518	25,624	16,691	6,261	5,920	13,794
Alcohol Licenses	5,059	68	246	610	122	3,120	487
Cigarette Taxes	13,767	10,629	---	19,675	---	8,800	7,341
Soft Drink Tax	---	---	---	---	---	---	3,058
CORPORATION AND OTHER BUSINESS	10,847	66,497	54,132	27,673	30,601	37,952	6,020
Corporate Net Income Tax	---	51,171	20,634	---	16,304	19,858	---
Corporation Capital Taxes (1)	128	254	769	10,951	504	427	846
Other Business Taxes	10,719	15,072	32,729	16,722	13,793	17,667	5,174
MOTOR VEHICLES	78,220	67,329	73,256	90,275	48,076	35,508	31,380
Motor Fuels Taxes	50,054	36,652	57,170	41,129	30,739	22,857	19,512
Motor Vehicles	28,166	30,677	16,086	49,146	17,337	12,651	11,868
DEATH AND GIFT	4,450	7,854	2,981	10,990	3,879	8,706	1,301
PARI-MUTUEL	---	---	---	18,663	6,194	---	1,688
OTHER TAXES AND LICENSES	16,140	23,972	15,924	4,424	14,317	1,202	4,335
TOTAL LOCAL TAX COLLECTIONS	257,638	296,678	126,662	539,980	142,718	160,912	49,380
Property	251,951	285,229	99,317	486,547	127,329	158,563	41,674
Non-Property	5,687	11,449	27,345	53,433	15,389	2,349	7,706
TOTAL STATE AND LOCAL TAX COLLECTIONS	541,755	549,563	332,674	728,981	308,204	299,218	183,512

appreciation of the tax burden in Pennsylvania, it will be helpful to make a few other comparisons involving state and local taxes in these states. they will include:

1. The total state and local tax collections and state liquor store profits, since the latter are, in effect, a form of taxation.
2. The per capita distribution of these revenues in the various states.
3. The ratios of these taxes to the income payments and other measures of economic activity in these states.
4. The relative importance of the various tax revenues in the respective states.

TOTAL STATE AND LOCAL TAXES

U. S. Bureau of the Census data will be employed to compare state and local tax burdens, including state liquor store profits, in Pennsylvania and 14 other leading states in the fiscal year 1953, the latest year for which local data are available. The Pennsylvania sales tax became effective in the fiscal year 1954, hence its receipts are not included. The 1953 data will indicate, however, the manner in which Pennsylvania distributed her state taxes when she had no broadbased tax on personal incomes or consumer expenditures and when corporate income taxes soared to new heights as a result of accelerated payments.

The total state and local tax collections and state liquor store profits amounted to $1,276.5 million in Pennsylvania in the fiscal year 1953 (See Table 32). State and local taxes were $2,854.6 million in New York and $2,176.0 million in California.

Pennsylvania raised $666.5 million in state taxes and state liquor store profits, and $610.1 million, or somewhat less, in local taxes. State tax collections also exceeded the local in California, Michigan, Ohio, Indiana, North Carolina, Maryland, Virginia, and West Virginia.

New Jersey is noted for her relatively large local tax collections. They were nearly $540.0 million in the fiscal year 1953, when state taxes were $189.0 million and total taxes were approximately $729.0 million.

STATE AND LOCAL TAXES PER CAPITA IN 1953

The ratios of state and local taxes to population provide further helpful measures of tax burdens. They are shown in Table 33 for the group of 15 states.

In the fiscal year 1953, combined state and local taxes and state liquor store profits were $119.79 per capita in Pennsylvania. New York, had the highest per capita load among the 15 states, amounting to $187.39. The lowest state and local taxes per capita among the 15 states were found in Virginia, where the total was $93.79.

Among the 15 states, Pennsylvania ranked 12th in per capita state and local taxes, including state liquor store profits.

CHART 12

STATE AND LOCAL TAX REVENUES FISCAL YEAR 1953

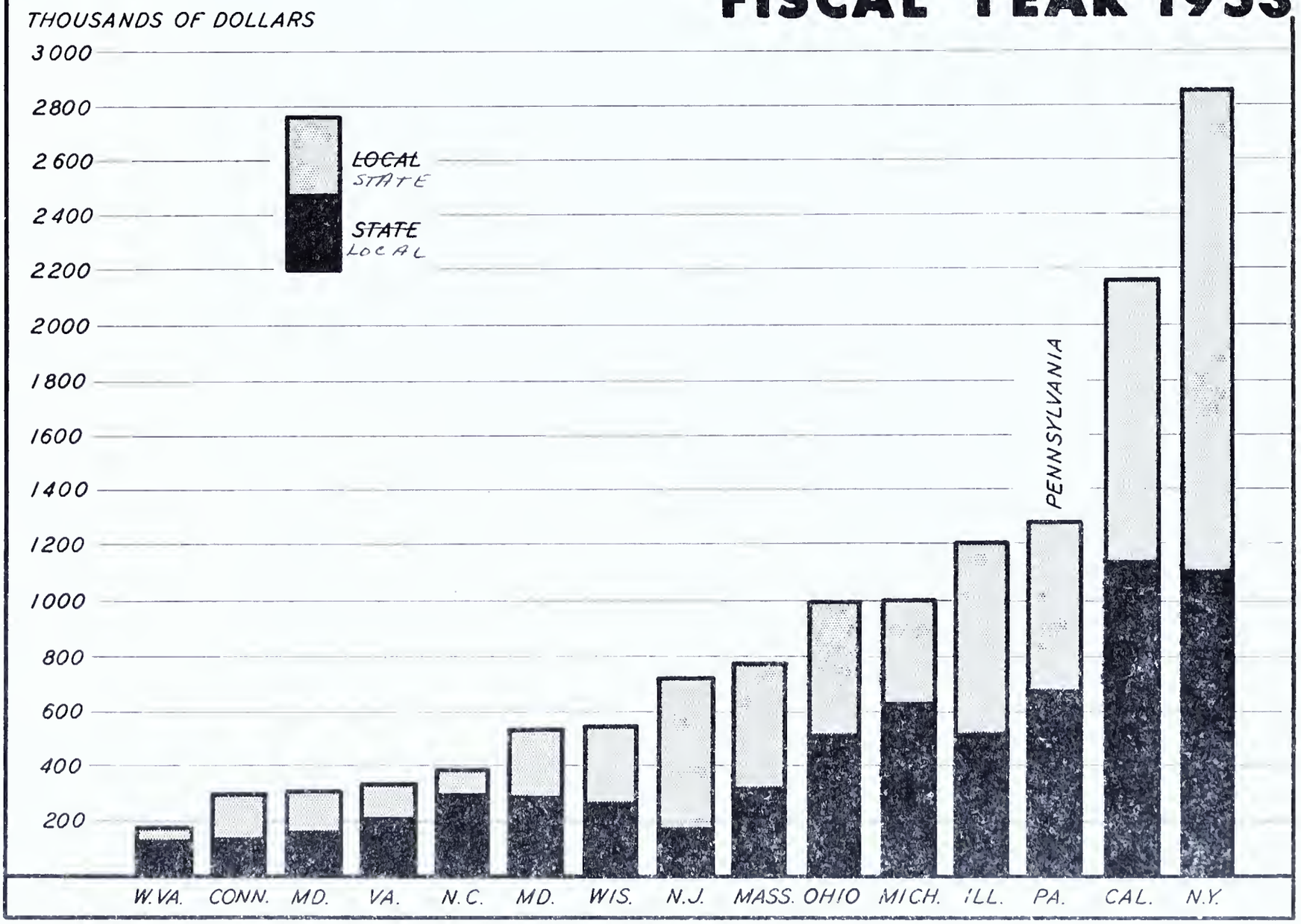


CHART 13

STATE AND LOCAL TAX BURDENS, 1953, AS PERCENT OF INCOME PAYMENTS

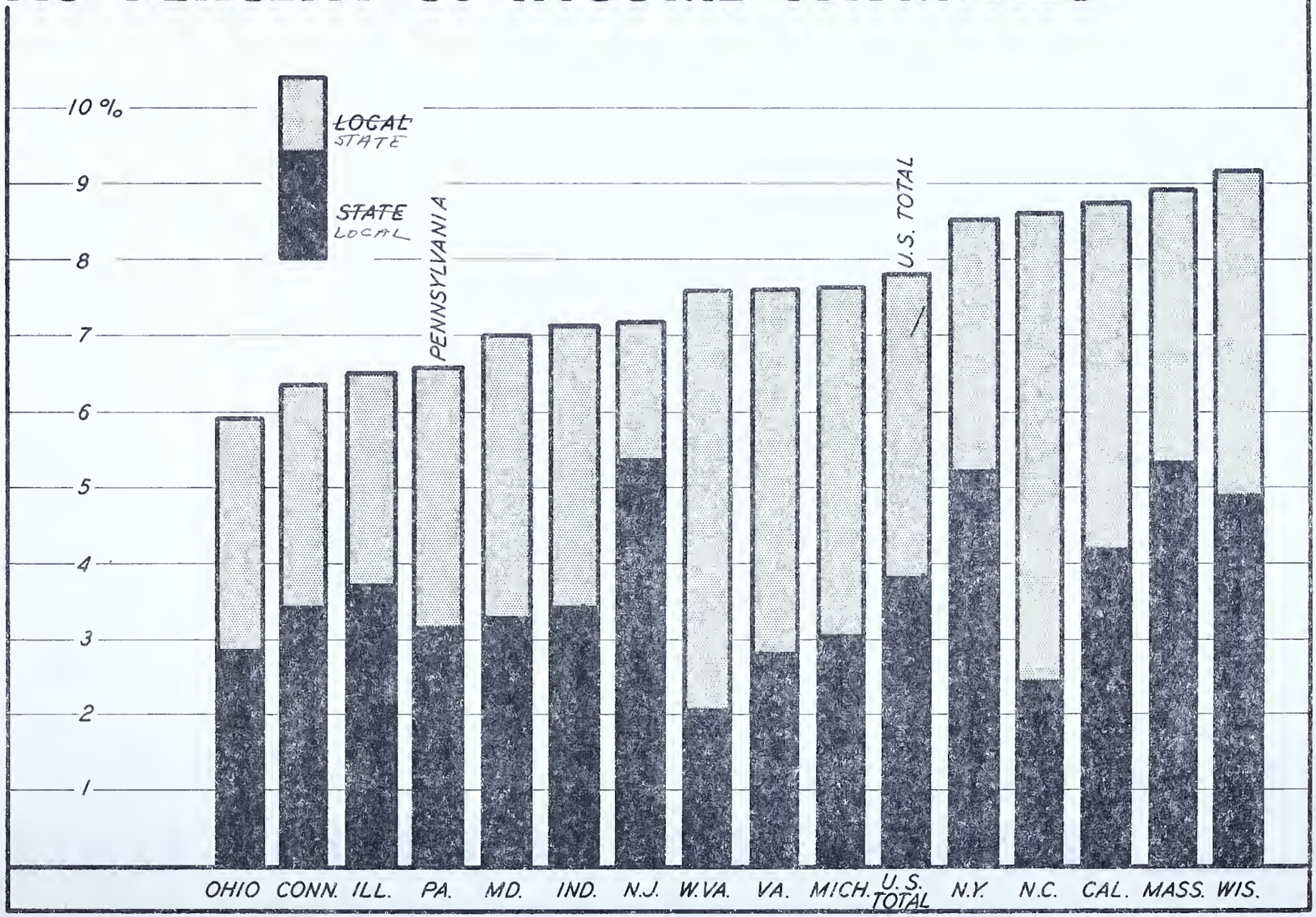


Table 33

STATE AND LOCAL TAX BURDENS, Fiscal Year 1953

	State Tax Collections, 1953			Local Tax Collections			State & Local Tax Collections		
	Amount (In thousands)	Per Capita	Percent Of Income Payments	Amount (In thousands)	Per Capita	Percent Of Income Payments	Amount (In thousands)	Per Capita	Percent Of Income Payments
United States, Total	$10,812,574	$68.67	4.00%	$10,355,621	$ 65.76	3.83%	$21,168,195	$134.43	7.82%
California	1,141,517	93.64	4.59	1,034,519	84.87	4.16	2,176,036	178.51	8.75
Connecticut	138,306	63.97	2.92	160,912	74.43	3.39	299,218	138.40	6.31
Illinois	514,435	57.14	2.74	704,303	78.23	3.75	1,218,738	135.37	6.48
Indiana	284,117	68.69	3.75	257,638	62.29	3.40	541,755	130.99	7.14
Maryland	165,486	65.13	3.76	142,718	56.17	3.24	308,204	121.29	7.00
Massachusetts	321,734	65.66	3.62	475,380	97.02	5.35	797,114	162.68	8.98
Michigan	629,826	91.92	4.59	420,539	61.37	3.06	1,050,365	153.29	7.65
New Jersey	189,001	36.76	1.86	539,980	105.03	5.32	728,981	141.80	7.18
New York	1,119,831	73.51	3.34	1,734,747	113.88	5.18	2,854,578	187.39	8.52
North Carolina	287,817	68.64	6.26	110,205	26.28	2.40	398,022	94.93	8.65
Ohio	520,033	62.14	3.09	483,533	57.78	2.87	1,003,566	119.91	5.96
PENNSYLVANIA	666,451	62.54	3.43	610,065	57.25	3.14	1,276,516	119.79	6.57
Virginia	206,012	58.08	4.67	126,662	35.71	2.87	332,674	93.79	7.54
West Virginia	134,132	69.25	5.51	49,380	25.49	2.03	183,512	94.74	7.54
Wisconsin	252,885	71.88	4.20	296,678	84.33	4.93	549,563	156.21	9.12

Source: U. S. Bureau of Census "Compendium of State Government Finances, 1953" with liquor profits included. Local data from State & Local Government Revenue in 1953.

CHART 14

BURDENS OF STATE AND LOCAL TAXES

IN RELATION TO INDEX OF ECONOMIC ACTIVITY

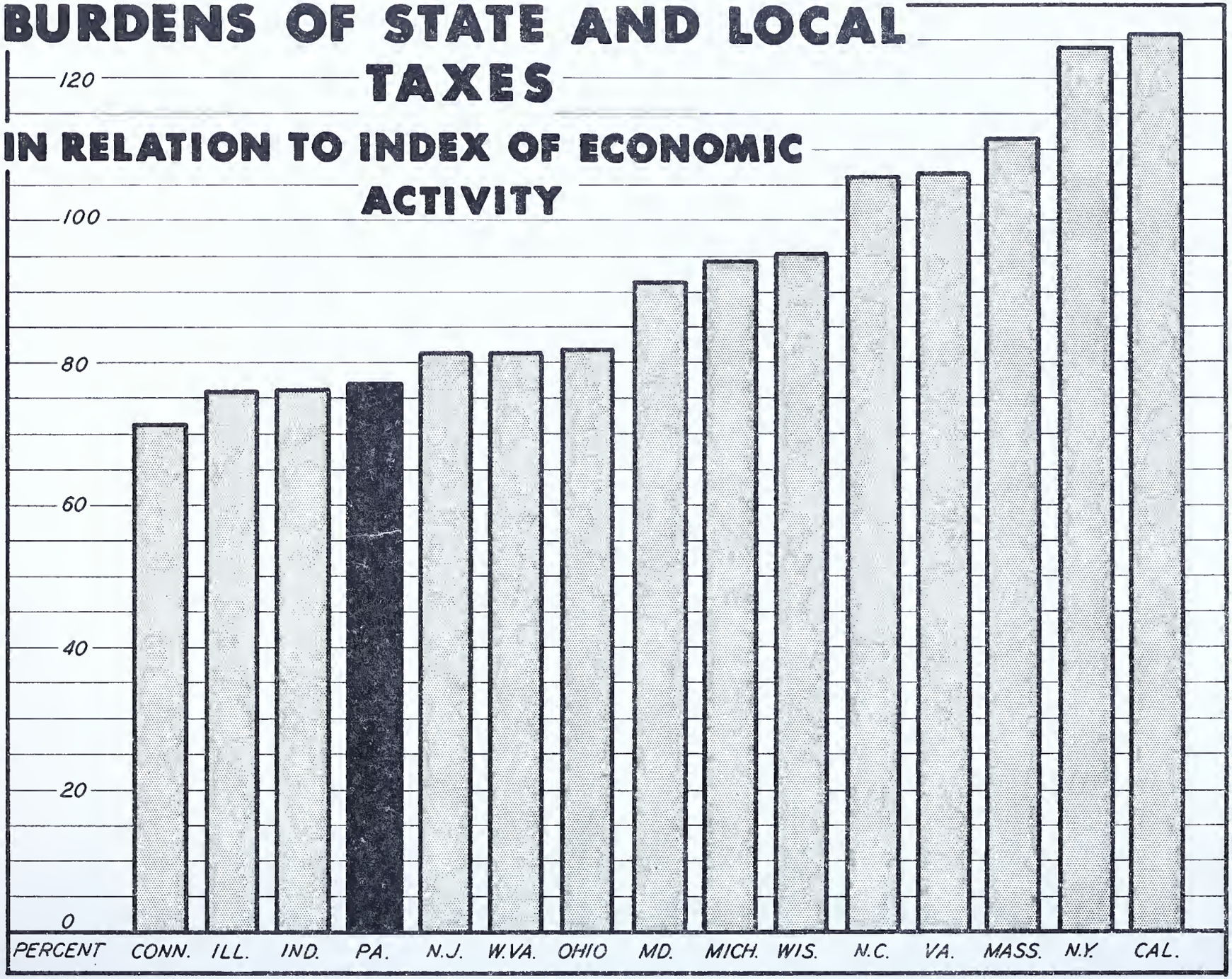


Table 34

BURDENS OF STATE AND LOCAL TAXES 1953

In 15 Selected States In Relation to Index of Economic Activity

State	Percentage
48 States	100.0%
California	125.8
Connecticut	72.3
Illinios	76.1
Indiana	76.5
Maryland	92.3
Massachusetts	112.7
Michigan	94.9
New Jersey	82.5
New York	123.7
North Carolina	106.3
Ohio	82.6
Pennsylvania	77.5
Virginia	106.9
West Virginia	82.5
Wisconsin	95.7

State taxes and state liquor store profits were $62.54 per capita in Pennsylvania. A high of $93.64 was found in California and a low of $36.76 in New Jersey. Among the 15 states, Pennsylvania ranked 12th in per capita state taxes, including liquor store profits.

Local taxes were $57.25 per capita in Pennsylvania in the fiscal year 1953. New York had the highest per capita local taxes, or $113.88. New Jersey was not far behind, with $105.03. The lowest local taxes per capita, of $25.49, were in West Virginia, where state taxes exceeded those in Pennsylvania, on a per capita basis. Among the 15 states, Pennsylvania ranked 11th in total local taxes per capita.

The per capita comparisons reveal a relatively low total of state and local taxes, including liquor store profits, in Pennsylvania. Only North Carolina, Virginia, and West Virginia had lower per capita totals.

STATE TAXES PER CAPITA IN 1954

Data are not available for comparing local taxes in the various states in the fiscal year 1954, but Census data make comparisons of state government taxes per capita possible, if state tax collections that year are compared with state populations in 1953, the latest year for which population estimates are available. Among the 15 states, state taxes per capita, including state liquor store profits, ranged from a low of $39.11 in New Jersey to a high of $100.92 in California.

The 1954 state per capita costs in Pennsylvania were $61.56. Among the 15 states, Pennsylvania ranked 12th in combined state taxes and state liquor profits per capita.

The 1954 data thus reveal a relatively low per capita cost of state government in Pennsylvania.

MAJOR STATE TAXES PER CAPITA IN 1954

A further comparison of the burden of major state government revenues in Pennsylvania and other leading states is provided by the per capita collections. In per capita collections, Pennsylvania ranked as follows among the 15 selected states in the fiscal year 1954:

1st in alcoholic beverage revenues.
2nd in cigarette taxes.
1st in corporation taxes.
2nd in inheritance taxes.

STATE AND LOCAL TAXES AND INCOME PAYMENTS

Another common basis for the comparison of tax burdens is that of relating tax collections to income payments.

In the fiscal year 1953, Pennsylvania had a ratio of state taxes

and state liquor store profits to income payments of 3.43 per cent. The ratios in the 15 states ranged from a low of 1.86 per cent in New Jersey to a high of 6.26 per cent in North Carolina. Among the 15 states Pennsylvania ranked 10th, as shown in Table 33.

The ratio of local taxes to income payments was 3.14 per cent in Pennsylvania, as compared with a low of 2.03 per cent in West Virginia and a high of 5.35 per cent in Massachusetts. New Jersey ranked second highest, with a ratio of 5.32 per cent.

The ratio of total state and local taxes and state liquor store profits to income payments in 1953 was 6.57 per cent in Pennsylvania. The highest ratio among the 15 states, of 9.13 per cent, was found in Wisconsin. The Ohio ratio of 5.98 per cent was the lowest.

Among the 15 states, Pennsylvania ranked 12th in the ratio of state and local taxes, including state liquor store profits, to income payments.

TOTAL STATE AND LOCAL TAXES AND INDEX OF ECONOMIC ACTIVITY

Income payments are only one factor affecting the economic and financial capacity of the states. The value of manufacturing output, farm and mining production, and retail store sales are also of importance. An index of economic activity, combining all of these factors on a per capita basis, has therefore been prepared for 1953, the latest year for which data are available.

Using the ratio of total state and local taxes and state liquor store profits, in the 48 states to economic activity per capita as a base, or 100 per cent, the ratios of taxes to economic activity in the 15 selected states were compared. (See Table 34 and the Appendix.)

The Pennsylvania ratio was 77.5 per cent. Only three states, or Connecticut, Illinois, and Indiana, had a lower ratio. The lowest ratio, of 72.3 per cent, was found in Connecticut. California, with a ratio of 125.8 per cent of the national average, had the highest ratio of taxes to economic activity.

Among the 15 states, Pennsylvania ranked 12th in the ratio of total state and local taxes and state liquor store profits to economic activity in 1953.

This measure of comparative tax burdens again indicates a relatively low cost of state and local government in Pennsylvania. It also indicates a relatively large taxable capacity.

PER CAPITA COLLECTIONS OF MAJOR TAXES

The total state and local tax burdens in Pennsylvania and 14 other leading states have been compared. In order to determine whether particular taxes are relatively high or low in Pennsylvania, the per capita collections

Table 35

PER CAPITA STATE AND LOCAL TAX REVENUES, Fiscal Year, 1953
(Including Liquor Store Profits)

	Calif.	N. Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N. C.
TOTAL STATE TAX COLLECTIONS AND LIQUOR PROFITS	$ 93.64	$ 73.51	$ 62.54	$ 91.92	$ 62.14	$ 57.14	$ 65.66	$ 68.64
PERSONAL INCOME TAX	7.74	22.13	-	-	-	-	15.23	8.92
GENERAL SALES TAX	37.88	-	-	39.66	22.58	22.82	-	13.16
SELECTED COMMODITIES	2.31	8.69	15.99	12.47	10.80	6.26	10.33	2.64
Alcohol Excise and Profits	1.61	3.08	11.00	7.99	7.43	2.70	4.45	2.62
Alcohol Licenses	.70	1.57	.75	.72	.89	.13	.09	.02
Cigarette Taxes	-	4.04	4.23	3.76	2.48	3.43	5.79	-
Soft Drink Tax	-	-	.01	-	-	-	-	-
CORPORATE AND OTHER BUSINESS	14.45	21.89	23.51	12.24	6.72	6.27	20.83	18.15
Corporate Net Income Taxes	9.77	14.82	13.37	-	-	-	15.67	9.17
Corporation Capital Taxes	.04	.14	5.57	9.56	1.21	.48	.16	1.36
Other Business Taxes	4.64	6.93	4.57	2.68	5.51	5.79	5.00	7.62
MOTOR VEHICLES	20.60	14.22	17.65	20.10	18.41	18.35	13.18	23.03
Motor Fuels Taxes	15.15	7.11	11.40	12.06	10.92	10.80	9.48	17.61
Motor Vehicles	5.45	7.11	6.25	8.04	7.49	7.55	3.70	5.42
DEATH AND GIFT	1.79	1.97	3.11	1.20	.55	1.38	2.49	.83
PARI-MUTUEL	1.74	2.53	-	.79	.32	1.66	1.98	-
OTHER TAXES AND LICENSES	7.13	2.08	2.28	5.46	2.76	.40	1.62	1.91
TOTAL LOCAL TAX COLLECTIONS	84.87	113.88	57.25	61.37	57.78	78.23	97.02	26.28
PROPERTY	76.68	85.12	44.16	59.93	52.71	70.22	94.36	24.86
NON-PROPERTY	8.19	28.76	13.09	1.44	5.07	8.01	2.66	1.42
TOTAL STATE AND LOCAL TAX COLLECTIONS	$178.51	$187.39	$119.79	$153.29	$119.92	$135.37	$162.68	$ 94.92

Source: See Table 32. For explanatory footnotes, see Table 32.

Table 35 (Cont'd)

PER CAPITA STATE AND LOCAL TAX REVENUES. Fiscal Year, 1953
(Including Liquor Store Profits)

	Ind.	Wisc.	Va.	N. J.	Md.	Conn.	W. Va.
TOTAL STATE TAX COLLECTIONS AND LIQUOR PROFITS	$ 68.69	$ 71.88	$ 58.08	$ 36.76	$ 65.13	$ 63.97	$ 69.25
PERSONAL INCOME TAX	-	18.20	9.54	-	9.71	-	-
GENERAL SALES TAX	34.43	-	-	-	12.34	17.16	33.42
SELECTED COMMODITIES	7.75	6.60	7.29	7.19	2.51	8.25	12.74
Alcohol Excises and Profits	3.20	3.56	7.22	3.25	2.46	2.74	7.12
Alcohol Licenses	1.22	.02	.07	.11	.05	1.44	.25
Cigarette Taxes	3.33	3.02	-	3.83	-	4.07	3.79
Soft Drink Tax	-	-	-	-	-	-	1.58
CORPORATE AND OTHER BUSINESS	2.62	18.90	15.26	5.38	12.04	17.55	3.11
Corporate Net Income Taxes	-	14.55	5.82	-	6.42	9.19	-
Corporation Capital Taxes	.03	.07	.22	2.13	.20	.19	.44
Other Business Taxes	2.59	4.28	9.22	3.25	5.42	8.17	2.67
MOTOR VEHICLES	18.91	19.14	20.65	17.56	18.92	16.42	16.20
Motor Fuels Taxes	12.10	10.42	16.12	8.00	12.10	10.57	10.07
Motor Vehicles	6.81	8.72	4.53	9.56	6.82	5.85	6.13
DEATH AND GIFT	1.08	2.23	84	2.14	1.53	4.03	.67
PARI-MUTUEL	-	-	-	3.63	2.44	-	87
OTHER TAXES AND LICENSES	3.90	6.81	4.50	.86	5.64	.56	2.24
TOTAL LOCAL TAX COLLECTIONS	62.29	84.33	35.71	105.03	56.17	74.43	25.49
PROPERTY	60.92	81.08	28.00	94.64	50.11	73.34	21.51
NON-PROPERTY	1.37	3.25	7.71	10.39	6.06	1.09	3.98
TOTAL STATE AND LOCAL TAX COLLECTIONS	$130.98	$156.21	$ 93.79	$141.79	$121.30	$138.40	$ 94.74

Source: See Table 32. For explanatory footnotes, see Table 32.

Table 36

STATE AND LOCAL TAX REVENUES AS PERCENTAGES OF TOTAL INCOME PAYMENTS
(Including Liquor Store Profits)

Fiscal Year, 1953

	Calif.	N. Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N. C.
TOTAL STATE TAX COLLECTIONS	4.59%	3.34%	3.43%	4.59%	3.09%	2.74%	3.62%	6.26%
PERSONAL INCOME TAXES	.38	1.01	-	-	-	-	.84	.81
GENERAL SALES TAXES	1.86	-	-	1.98	1.12	1.09	-	1.20
SELECTED COMMODITIES	.11	.40	.88	.62	.54	.30	.57	.24
Alcoholic Excises and Profits	.08	.14	.60	.40	.37	.13	.25	.24
Alcohol Licenses	.03	.07	.04	.04	.05	.01	-	-
Cigarette Taxes	-	.19	.23	.18	.12	.16	.32	-
Soft Drink Tax	-	-	.01	-	-	-	-	-
CORPORATE AND OTHER	.71	1.00	o.29	.61	.33	.30	1.15	1.65
Corporate Net Income Tax	.48	.67	.73	-	-	-	.86	.84
Corporation Capital Taxes	-	.01	.31	.48	.06	.02	.01	.12
Other Business Taxes	.23	.32	.25	.13	.27	.28	.28	.69
MOTOR VEHICLES	1.01	.65	.97	1.00	.92	.88	.73	2.10
Motor Fuels Taxes	.74	.32	.63	.60	.54	.52	.52	1.61
Motor Vehicles	.27	.33	.34	.40	.38	.36	.21	.49
DEATH AND GIFT	.09	.09	.17	.06	.03	.06	.14	.08
PARI-MUTUEL	.09	.11	-	.04	.02	.08	.11	-
OTHER TAXES AND LICENSES	.34	.08	.12	.28	.13	.03	.08	.18
TOTAL LOCAL TAX COLLECTIONS	4.16	5.18	3.14	3.06	2.87	3.75	5.35	2.40
Property	3.76	3.87	2.42	2.99	2.62	3.36	5.21	2.27
Non-Property	.40	1.31	.72	.07	.25	.39	.14	.13
TOTAL STATE AND LOCAL TAX COLLECTIONS	8.75%	8.52%	6.57%	7.65%	5.96%	6.49%	8.97%	8.66%

Source: See Table32. For explanatory footnotes, see Table 32.

Table 36 (Continued)

STATE AND LOCAL TAX REVENUES AS PERCENTAGES OF TOTAL INCOME PAYMENTS
(Including Liquor Store Profits)

Fiscal Year, 1953

	Ind.	Wisc.	Va.	N.J.	Ind.	Conn.	W.Va.
TOTAL STATE TAX COLLECTION	3.75%	4.20%	4.67%	1.86%	3.76%	2.92%	5.51%
PERSONAL INCOME TAXES	-	1.06	.77	-	.56	-	-
GENERAL SALES TAXES	1.88	-	-	-	.71	.78	2.66
SELECTED COMMODITIES	.42	.39	.59	.36	.15	.38	1.01
Alcoholic Excises and Profits	.17	.21	.58	.16	.14	.12	.57
Alcohol Licenses	.07	-	.01	.01	.01	.07	.02
Cigarette Taxes	.18	.18	-	.19	-	.19	.30
Soft Drink Tax	-	-	-	-	-	-	.12
CORPORATE AND OTHER	.14	1.10	1.23	.27	.70	.80	.25
Corporate Net Income Tax	-	.85	.47	-	.37	.42	-
Corporation Capital Taxes	-	-	.02	.11	.01	.01	.04
Other Business Taxes	.14	.25	.74	.16	.32	.37	.21
MOTOR VEHICLES	1.03	1.12	1.66	.89	1.09	.75	1.29
Motor Fuels Taxes	.66	.61	1.30	.41	.70	.48	.80
Motor Vehicles	.37	.51	.36	.48	.39	.27	.49
DEATH AND GIFT	.06	.13	.07	.11	.09	.18	.05
PARI-MUTUEL	-	-	-	.18	.14	-	.07
OTHER TAXES AND LICENSES	.22	.40	.35	.05	.32	.03	.18
TOTAL LOCAL TAX COLLECTIONS	3.40	4.93	2.87	5.32	3.24	3.39	2.03
Property	3.32	4.74	2.25	4.79	2.89	3.34	1.71
Non-Property	.08	.19	.62	.53	.35	.05	.32
TOTAL STATE AND LOCAL TAX COLLECTIONS	7.15%	9.13%	7.54%	7.18%	7.00%	6.31%	7.54%

Source: See Table 32. For explanatory footnotes, see Table 32.

of major taxes will now be compared, using U. S. Census data. The data are summarized in Table 35.

It should be kept in mind that Pennsylvania state collections in the fiscal year 1953 did not include any retail sales tax collections but did include greatly increased corporation taxes as a result of the acceleration of corporation income tax payments.

The alcoholic beverage revenues per capita were $11.00 in Pennsylvania in the fiscal year 1953, the highest of the 15 states.

Cigarette tax collections in Pennsylvania were $4.23 per capita, with a 4 cent a package tax. This figure was exceeded only in Massachusetts, where per capita collections with a 5 cent tax were $5.79.

Corporation tax collections in Pennsylvania were $18.96 per capita, the highest of all the 15 states.

Inheritance and estate tax collections were $3.11 per capita in Pennsylvania. Only Connecticut, with per capita receipts of $4.03, surpassed Pennsylvania.

Local property taxes in Pennsylvania amounted to $44.16 per capita, a relatively low figure. The maximum, of $94.64 per capita, was found in New Jersey. The minimum, of $21.51, was reported in West Virginia. In per capita local property tax collections, Pennsylvania ranked 12th among the 15 leading states.

Pennsylvania was unique among the 15 states in having no general state tax on personal incomes or sales, and no state tax on pari-mutuel betting in the fiscal year 1954.

Lacking a highly productive broad-based tax on personal income or sales, Pennsylvania concentrated her taxes on alcohol, cigarettes, inheritances, and corporations.

MAJOR TAXES AND INCOME PAYMENTS

Another test of the weight of particular taxes is that of comparing tax collections with income payments. U. S. Census and other Federal government reports will be utilized for these comparisons in the fiscal year 1953.

The ratio of state alcohol revenues to income payments was 0.60 per cent in Pennsylvania, the highest in the group of 15 leading states. (See Table 36.)

The ratio of cigarette tax collections to income payments in Pennsylvania was 0.23 per cent in Pennsylvania, a ratio exceeded only in Massachusetts and West Virginia.

The ratio of corporation taxes to income payments was 1.04 per

cent in Pennsylvania, higher than that in any other of the 15 leading states. The next highest ratio of 0.87 per cent was found in Massachusetts.

The ratio of inheritance and estate tax collections to income payments was 0.17 per cent in Pennsylvania, a ratio exceeded only by Connecticut, where it was 0.18 per cent.

The ratio of local property taxes to income payments was comparatively low in Pennsylvania, being only 2.42 per cent. Pennsylvania ranked 11th among the states in the ratio of local property taxes to income payments.

PERCENTAGES OF TOTAL TAXES FROM MAJOR SOURCES

Another test is frequently made to determine the importance of particular taxes, that of comparing the percentages of total state and local taxes revenues derived from these taxes. Such a comparison is furnished in Table 37 for the fiscal year 1953 for the 15 selected states.

Alcoholic beverage revenues supplied 9.13 per cent of the total state and local taxes and state liquor store profits in Pennsylvania. No other state in the group had such a high ratio.

Cigarette taxes in Pennsylvania amounted to 3.53 per cent of state and local taxes and liquor store profits. Only Massachusetts and West Virginia had higher ratios.

Corporation taxes provided 15.81 per cent of the total state and local taxes and state liquor store profits in Pennsylvania, the highest ratio among the 15 states. Massachusetts, with a ratio of 9.74 per cent, ranked second.

The inheritance and estate tax ratio in Pennsylvania was 2.60 per cent. Only Connecticut had a higher ratio.

Local property taxes were 36.89 per cent of the total state and local taxes and state liquor store profits in Pennsylvania. They were relatively moderate, placing Pennsylvania 12th among the 15 states.

The ratios of collections from major sources to total state and local taxes show a heavy concentration in Pennsylvania, as compared with other leading states in the fiscal year 1953, on relatively high taxes on alcoholic beverages, cigarettes,corporations and inheritances. They also show comparatively low local property taxes.

In the fiscal year 1953 Pennsylvania lacked both a state personal income tax and a retail sales tax. In most other states these taxes raise substantial revenue.

The lack of a broad-based tax inevitably means high taxes on other objects which frequently exceed those of other states competing for industry, investment, and employment.

Table 37

STATE AND LOCAL TAX REVENUES AS PERCENTAGES OF TOTAL STATE & LOCAL TAX COLLECTIONS
Fiscal Year, 1953
(Including Liquor Store Profits)

	Calif.	N.Y.	Pa.	Mich.	Ohio	Ill.	Mass.	N.C
TOTAL STATE TAX COLLECTIONS	52.46%	39.23%	52.21%	59.96%	51.82%	42.21%	40.36%	72.31%
PERSONAL INCOME TAXES	4.33	11.81	-	-	-	-	9.36	9.39
SALES TAXES	21.22	-	-	25.87	18.83	16.86	-	13.87
SELECTED COMMODITIES	1.29	4.64	13.35	8.14	9.01	4.62	6.35	2.78
Alcoholic Beverage Taxes	.90	1.64	9.18	5.22	6.20	2.00	2.73	2.75
Alcoholic Beverage Licenses	.39	.84	.63	.47	.74	.09	.06	.03
Cigarette Taxes	-	2.16	3.53	2.45	2.07	2.53	3.56	-
Soft Drinks Tax	-	-	.01	-	-	-	-	-
CORPORATE AND OTHER BUSINESS	8.10	11.68	19.62	7.99	5.61	4.64	12.81	19.12
Corporate Net Income Taxes	5.47	7.91	11.16	-	-	-	9.63	9.66
Corporation Capital Taxes	.03	.07	4.65	6.24	1.01	.36	.11	1.43
Other Business Taxes	2.60	3.70	3.81	1.75	4.60	4.28	3.07	8.03
MOTOR VEHICLES	11.54	7.59	14.73	13.11	15.35	13.56	8.10	24.26
Motor Fuels Taxes	8.49	3.79	9.52	7.87	9.10	7.98	5.83	18.55
Motor Vehicles	3.05	3.80	5.21	5.24	6.25	5.58	2.27	5.71
DEATH AND GIFT	1.01	1.05	2.60	.78	.46	1.02	1.53	.87
PARI-MUTUEL	.97	1.35	-	.52	.27	1.22	1.21	-
OTHER TAXES AND LICENSES	4.00	1.11	1.91	3.55	2.29	.29	1.00	2.02
TOTAL LOCAL TAX COLLECTIONS	47.54	60.77	47.79	40.04	48.18	57.79	59.64	27.69
PROPERTY	42.96	45.42	36.87	39.09	43.96	51.88	58.00	26.19
NON-PROPERTY	4.58	15.35	10.92	.95	4.22	5.91	1.64	1.50
TOTAL STATE AND LOCAL TAX COLLECTIONS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: See Table 32. For explanatory footnotes see table 32.

Table 37 (Continued)

STATE AND LOCAL TAX REVENUES AS PERCENTAGES OF TOTAL STATE & LOCAL TAX COLLECTIONS
Fiscal Year, 1953
(Including Liquor Store Profits)

	Ind.	Wisc.	Va.	N.J.	Md.	Conn.	W.Va.
TOTAL STATE TAX COLLECTIONS	52.44%	46.02%	61.93%	25.93%	53.69%	46.22%	73.09%
PERSONAL INCOME TAXES	-	11.65	10.17	-	8.01	-	-
SALES TAXES	26.29	-	-	-	10.17	12.40	35.27
SELECTED COMMODITIES	5.91	4.22	7.78	5.07	2.07	5.96	13.45
Alcoholic Beverage Taxes	2.44	2.28	7.70	2.29	2.03	1.98	7.52
Alcoholic Beverage Licenses	.93	.01	.08	.08	.04	1.04	.26
Cigarett Taxes	2.54	1.93	-	2.70	-	2.94	4.00
Soft Drinks Tax	-	-	-	-	-	-	1.67
CORPORATE AND OTHER BUSINESS	2.00	12.10	16.27	3.80	9.93	12.68	3.28
Corporate Net Income Taxes	-	9.31	6.20	-	5.29	6.64	-
Corporation Capital Taxes	.02	.05	.23	1.50	.16	.14	.46
Other Business Taxes	1.98	2.74	9.84	2.30	4.48	5.90	2.82
MOTOR VEHICLES	14.44	12.25	22.02	12.38	15.60	11.87	17.10
Motor Fuels Taxes	9.24	6.67	17.18	5.64	9.97	7.64	10.63
Motor Vehicles	5.20	5.58	4.84	6.74	5.63	4.23	6.47
DEATH AND GIFT	.82	1.43	.90	1.51	1.26	2.91	.71
PARI-MUTUEL	-	-	-	2.56	2.01	-	.92
OTHER TAXES AND LICENSES	2.98	4.37	4.79	.61	4.64	.40	2.36
TOTAL LOCAL TAX COLLECTIONS	47.56	53.98	38.07	74.07	46.31	53.78	26.91
PROPERTY	46.51	51.90	29.85	66.74	41.31	52.99	22.71
NON-PROPERTY	1.05	2.08	8.22	7.33	5.00	.79	4.20
TOTAL STATE AND LOCAL TAX COLLECTIONS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

COLLECTIONS FROM MAJOR STATES TAXES IN 1954

Comparisons of the burdens of state taxes may be made for the fiscal year 1954 in terms of the percentages of total state taxes and liquor store profits obtained from major revenue sources in the group of 15 leading states in the fiscal year 1954. Local tax collections in that year, unfortunately, are not yet known. The 1954 data reveal a tax pattern similar to that in the fiscal year 1953. Pennsylvania was still at the top of the list in the burdens of alcoholic beverage revenues and corporation taxes and near the top in the burdens on cigarettes and inheritances.

Alcoholic beverage revenues supplied 13.70 per cent of these revenues in Pennsylvania, the highest percentage of any of the 15 states for which data were available. (See Table 23)

Cigarette taxes provided 6.77 per cent of these revenues in Pennsylvania, giving us a rank of 3rd among the 15 states.

Corporation taxes furnished 28.20 per cent of the total state taxes and state liquor store profits in Pennsylvania. These taxes thus provided relatively more revenue here than in any other of the 15 states.

Inheritance taxes yielded 5.46 per cent of the total state taxes and state liquor store profits in Pennsylvania. This placed Pennsylvania 3rd among the 15 states.

General sales, on retail sales taxes supplied 5.64 per cent of the total state taxes and state liquor store profits in Pennsylvania, placing us last among the 10 states imposing some type of general sales tax.

TAXES AND INDUSTRY

Other things being equal, new industries and those expanding their plants will locate where their taxes in relation to the benefits they obtain from government are comparatively low.

A high tax obstacle will be overcome only if there are other factors of decisive importance, such as proximity to markets, transportation, labor supply, materials, or fuel, which are so favorable as to outweigh tax handicaps.

Frequently small firms have less freedom of choice than large ones. The capital needed and their markets may in the beginning only be found in the home community. High taxes mean high costs for such firms, and are a serious hazard to their survival.

Some taxes are more onerous on business than others. The high Pennsylvania capital stock tax acts as a continuing fixed charge which must be paid regardless of profits or losses.

THE TAX OUTLOOK

Those planning new and expanding industries will weigh the tax, expenditure, and debt outlook in the communities where they are thinking of operating.

Indications of increased future taxes will be considered unfavorable factors in locating new industries and expanding existing facilities unless the benefits anticipated from the state and local government expenditures of the taxes collected will return commensurate benefits to the taxed concerns.

Tax reductions for new industries will require transferring the tax burden elsewhere to meet rising government costs. The growth of existing industries in the state may thus be penalized.

Some Basic Tax Principles

Some basic tax principles should be kept in mind in erecting a state and local tax system to support the growing costs of government. The Tax Study Committee reaffirms its statement of basic tax principles in its 1953 report. It declares:

"A fiscally adequate and rationally equitable system of taxation requires a reasonable diversity of revenue sources. Experience has shown that no one tax is adequate to maintain the costly public services which the citizens today demand of their governments. Since taxes are paid out of the incomes, savings, and expenditures of individuals in the last analysis, a balance is desirable in the taxes imposed upon individuals in their capacities as producers, investors, and consumers. This requires a balance in the utilization of personal income, property, consumption, and business taxes by the Federal, state, and local governments."

In its 1953 report the Tax Study Committee further declared:

"No tax system is perfect. The taxpayers are never eager to sacrifice their incomes, their savings, and their expenditures to pay for governmental services. As a consequence, taxes are too often the product of expediency, of yielding to immediate pressures, of failing to look ahead to the effects of the actions taken today, and of overlooking the new revenue demands which are certan to rise tomorrow. But our tax system can be improved. Major inequities can be removed. New revenues can be obtained without carrying existing taxes to confiscatory heights."

Summary of Pennsylvania Tax Burdens

The total state and local taxes of Pennsylvania are comparatively moderate. Certain taxes are very high, however.

The Pennsylvania state and local tax load, in comparison with that of 14 other leading states in the fiscal year 1953 may now be summarized, using U. S. Census Bureau and other Federal government reports.

1. With respect to the total state and local government tax load, combined with state liquor store profits, Pennsylvania ranked as follows among 15 leading states in the fiscal year 1953:
   12th on a per capita basis
   12th in relation to income payments
   12th in relation to overall per capita economic activity

II. With respect to the total per capita state taxes and state liquor store profits, Pennsylvania ranked 12th among the 15 states in the fiscal year 1954.

III. With respect to collections from major taxes, Pennsylvania ranked as follows among 15 leading states in the fiscal year 1953:
   A. On a per capita basis
      1st in alcoholic beverage revenues
      3rd in cigarette taxes
      1st in corporation taxes
      2nd in inheritance taxes
      12th in local property taxes
   B. In relation to income payments, Pennsylvania ranked:
      1st in alcoholic beverage revenues
      3rd in cigarette taxes
      1st in corporation taxes
      2nd in inheritance taxes
      11th in local property taxes
   C. In percentages of combined state and local taxes and state liquor store profits derived from major sources, Pennsylvania ranked:
      1st in alcoholic beverage revenues
      3rd in cigarette taxes
      1st in corporation taxes
      2nd in inheritance taxes
      12th in local property taxes

IV. With respect to collection from major state government taxes, Pennsylvania ranked as follows in the fiscal year 1954:
   A. On a per capita basis
      1st in alcoholic beverage revenues
      2nd in cigarette taxes
      1st in corporation taxes
      2nd in inheritance taxes
   B. In percentages of combined state and local taxes and state liquor store profits:
      1st in alcoholic beverage revenues
      3rd in cigarette taxes
      1st in corporation taxes
      3rd in inheritance taxes
      10th in general sales taxes (among 10 states)

The various tests of comparative tax burdens in Pennsylvania and 14 other leading states warrant three general conclusions.

First, the overall state and local tax load in Pennsylvania is relatively low.

Secondly, the alcoholic beverage revenues and the taxes on cigarettes, corporations and inheritances, are at or near the top in their burdens in Pennsylvania.

Thirdly, local property taxation, considering the overall situation and allowing for such exceptions as may exist in particular localities and for particular properties, is relatively low in Pennsylvania.

Chapter IV

THE STATE TAXES ON SELECTED OBJECTS

Pennsylvania and many other states secure substantial revenues from alcoholic beverages and cigarettes. The states commonly impose excises, and license taxes on alcoholic beverages. Sixteen states, including Pennsylvania, monopolize the retailing of packaged distilled spirits. Some of these states also monopolize the retailing of packaged wines. States with general sales taxes may apply them to sales of alcoholic beverages in addition to the special taxes.

Unlike some of the states, Pennsylvania does not permit local governments to tax alcoholic beverages. Instead, this state returns the retail license fees it collects to the localities in which they originate. These amounted to $ in the fiscal year 1954.

ALCOHOLIC BEVERAGE REVENUES

As indicated in the preceding chapter, alcoholic beverage taxes and state store profits are major General Fund revenues in Pennsylvania. The state General Fund revenues from alcoholic beverages in the fiscal years 1940 through 1954 are shown in Table 38. They contributed a total of $87.0 to the General Fund in the fiscal year 1954, distributed as follows: (In millions)

Liquor store profits	$44.0
Emergency liquor tax	19.9
Malt beverage tax	23.1

Pennsylvania collects more revenues from alcoholic beverages than any other state. In relation to population, income payments, and total state and local taxes, Pennsylvania has also been obtaining more revenue from alcoholic beverages than any other state in the group of 15 leading states.

The Pennsylvania liquor store mark-ups are 48 per cent of the costs of distilled spirits and wines. The Federal taxes are included in the costs, and on this base the 10 per cent state emergency liquor tax is added. The liquor store system is administered by the Liquor Control Board.

Malt beverages are taxed at a basic rate of $2.48 for each barrel of 31 gallons, or 1 cent a pint. The Department of Revenue collects this tax and certain taxes on wines at a rate of one-half cent per unit of proof gallon.

Retail liquor prices in Pennsylvania are apparently not much higher than in neighboring states, except in Ohio. Sales in Pennsylvania seem to hold up in spite of price differentials.

The Federal tax of $10.50 a gallon is the big tax on distilled spirits. To this high rate there has been much opposition but the Treasury has argued that much needed revenue would be lost if the tax rate were lowered. A lowering of the Federal tax, when it is possible, would no doubt be

Table 38

PENNSYLVANIA GENERAL FUND REVENUES FROM ALCOHOLIC BEVERAGES

	Liquor Store Profits			Malt Beverages Tax			Emergency Liquor Tax of 10%			Total Revenues From Alcohol*	
Fiscal Year	Amount (In thousands)	Percent of Total	Percent Increase or Decrease (-) over 1940	Amount (In thousands)	Percent of Total	Percent Increase or Decrease (-) over 1940	Amount (In thousands)	Percent of Total	Percent Increase or Decrease (-) over 1940	Amount (In thousands)	Percent Increase or Decrease (-) over 1940
1940	$16,000	52.81%		$ 7,184	23.71%	%	$ 7,093	23.41%	%	$30.296	
1941	18,000	53.24	12.50	7,161	21.18	- 0.32	8,632	25.53	21.70	33,811	11.60%
1942	18,000	48.46	12.50	8,615	23.19	19.92	10,511	28.30	48.19	37,142	22.60
1943	23,000	50.59	43.75	8,661	19.05	20.56	13,782	30.31	94.30	45,464	50.07
1944	13,500	39.45	-15.63	10,599	30.97	47.54	10,102	29.52	42.42	34,223	12.96
1945	20,500	46.10	28.13	10,374	23.33	44.40	13,575	30.53	91.39	44,469	46.78
1946	23,000	47.09	43.75	11,361	23.26	58.14	14,464	29.61	103.92	48,847	61.23
1947	36,000	55.93	125.00	11,834	18.39	64.73	16,511	25.65	132.78	64,366	112.46
1948	37,500	46.80	134.38	25,104	31.33	249.44	17,509	21.85	146.85	80,132	164.50
1949	39,500	47.37	146.88	23,617	28.32	228.74	20,255	24.29	185.56	83,390	175.25
1950	41,000	50.01	156.25	23,189	28.28	222.79	17,779	21.69	150.66	81,984	170.61
1951	39,000	48.11	143.75	23,089	28.48	221.39	18,955	23.38	167.24	81,060	167.56
1952	43,000	49.87	168.75	22,998	26.67	220.13	20,204	23.43	184.84	86,220	184.59
1953	44,000	49.16	175.00	22,846	25.52	218.01	22,639	25.29	219.17	89,500	195.42
1954	44,000	50.55	175.00	23,077	26.52	221.23	19,933	22.90	181.02	87,026	187.25

Source: State Budget Bureau.

*A minor amount of revenue from wines and distilled spirits taxes is included in the total.

Note: Date differs from data in Table 51 in that license taxes, included in Table 51, are not included herein. Liquor License taxes in Pennsylvania do not go into the General Fund

Table 39

STATE ALCOHOLIC BEVERAGE REVENUES, Fiscal Year 1953

(Including licenses and fees; In millions)

State	Excise Taxes	License Taxes	State Store Profits	Total	Percent of Total Taxes and Profits[1]
California	$19.6	$ 8.6	$	$28.2	2.47%
Connecticut	5.9	3.1		9.0	6.51
Illinois	24.3	1.1		25.4	4.94
Indiana	13.3	5.1		18.4	6.48
Maryland	6.3	.1		6.4	3.87
Massachusetts	21.8	.4		22.2	6.90
Michigan	7.4	4.9	32.2	44.5	7.07
New Jersey	16.7	.6		17.3	9.15
New York	46.9	23.9		70.8	6.32
North Carolina	11.0	.1		11.1	3.86
Ohio	33.7	7.4	18.9	60.0	11.54
PENNSYLVANIA	44.9	7.9	39.4	92.2	13.83
Virginia	8.3	.2	16.9	25.4	12.33
West Virginia	3.6	.5	7.9	12.0	8.95
Wisconsin	12.5	.1		12.6	4.98
Per Capita Revenues from Alcoholic Beverages					
California	$1.61	$ .71	$	$2.32	
Connecticut	2.73	1.43		4.16	
Illinois	2.70	.12		2.82	
Indiana	3.22	1.23		4.45	
Maryland	2.48	.04		2.52	
Massachusetts	4.45	.08		4.53	
Michigan	1.08	.72	4.70	6.50	
New Jersey	3.25	.12		3.37	
New York	3.08	1.57		4.65	
North Carolina	2.62	.02		2.64	
Ohio	4.03	.88	2.26	7.17	
PENNSYLVANIA	4.21	.74	3.70	8.65	
Virginia	2.34	.06	4.76	7.16	
West Virginia	1.86	.26	4.08	6.20	
Wisconsin	3.55	.03		3.58	

Source: U. S. Bureau of the Census, "Compendium of State Government Finances, 1953," Pennsylvania Liquor Control Board.

[1]For total taxes and profits, see Table 45. Local taxes are not included.

[2]$5,891,125 of liquor license revenue was returned to local governments; the application fees are transmitted to the State Stores Fund.

Table 40

COMPARISON OF STATE EXCISE TAXES ON MALT BEVERAGES, 1953
(per 31-gallon barrel)

50¢ to $1	$1 to $1.50	$1.50 to $2	$2 to $3	$3 to $4
California	Connecticut	Kentucky	Arizona	Alabama
Colorado	Illinois	New Mexico	Delaware	Idaho
Maryland	Michigan		Indiana	Kansas
Missouri	Montana		Iowa	New Hampshire
Nevada	Nebraska		Massachusetts	Tennessee
Wyoming	New Jersey		Minnesota	Virginia
	New York		Ohio	
	Oregon			
	Rhode Island		PENNSYLVANIA	
	Texas			
	Washington		South Dakota	
	Wisconsin			
Number of States				
6	12	2	9	6

$4 to $5	$5 to $8	$9 to $10	$10	$13
Georgia	Arkansas	South Carolina	Louisiana	Mississippi
Maine	Florida		Oklahoma	
North Dakota	North Carolina			
Utah	West Virginia			
Vermont				
Number of States				
5	4	1	2	1

Source: Commerce Clearing House, Inc. and various state reports.
U. S. Treasury Department, "Overlapping taxes in the United States", January 1, 1954

welcomed by liquor consumers and would improve state revenue resources.

The serious fiscal condition of the Commonwealth at this time apparently precludes any possibility of lowering the liquor mark-up or the 10 per cent emergency tax. Liquor taxes are now so high, however, that they should not be increased. Where possible, the costs of operating the state liquor stores should be lowered by eliminating inefficiencies and preventing inventories from becoming excessive.

The $2.48 a barrel tax rate on malt beverages in Pennsylvania is about the average state rate. It is lower than the tax rate of quite a few other states, however, which run up as high as $7.50 a barrel in North Carolina. But among the neighboring states, only Virginia and West Virginia have higher taxes as shown in Table 40.

Raising the malt beverage tax rate by 50 per cent to $3.72 a barrel in Pennsylvania would increase annual tax collections by approximately $10 million, assuming no substantial decline in the demand for malt beverages.

The licenses and fees imposed on vendors of alcoholic beverages in Pennsylvania are low and could be increased to provide more revenue for the local governments, which they primarily benefit. This is a subject which could apparently be explored to advantage.

THE CIGARETTE TAX

Nearly all of the states now tax cigarettes. The tax rates range from 2 to 8 cents a package. Pennsylvania and ten other states have a basic 4 cent tax. The Federal tax is 8 cents a package.

There has been a tendency for the state cigarette tax rates to advance. Four states tax cigarettes at 5 cents a package, two at 6 cents, and one at 8 cents, as indicated in Table 41.

Pennsylvania has been securing a relatively large amount of revenue from the 4 cent cigarette tax, amounting to $44.4 million in the fiscal year 1954, or 7.2 per cent of the total state taxes. Among the 15 leading states studied, Pennsylvania ranked 2nd in per capita cigarette tax revenues in the fiscal year 1953. Cigarette tax collections in the period 1940 to 1954 are shown in Table 42.

State tax collections indicate per capita purchases of cigarettes in Pennsylvania in 1953 of 2,178. They were 1,932 in West Virginia, another state with a 4 cent tax. Per capita purchases were 2,772 in New York, 3,320 in Delaware, and 2,717 in New Jersey, all states with 3 cent taxes. In Ohio, with a 2 cent tax, they were 2,590. Florida and Massachusetts, with 5 cent taxes, had per capita purchases of 2,500 and 2,321.

Maryland and Virginia have no cigarette taxes. Pennsylvania and West Virginia thus have the highest taxes in this region.

CHART 15

STATES HAVING CIGARETTE TAXES 1953

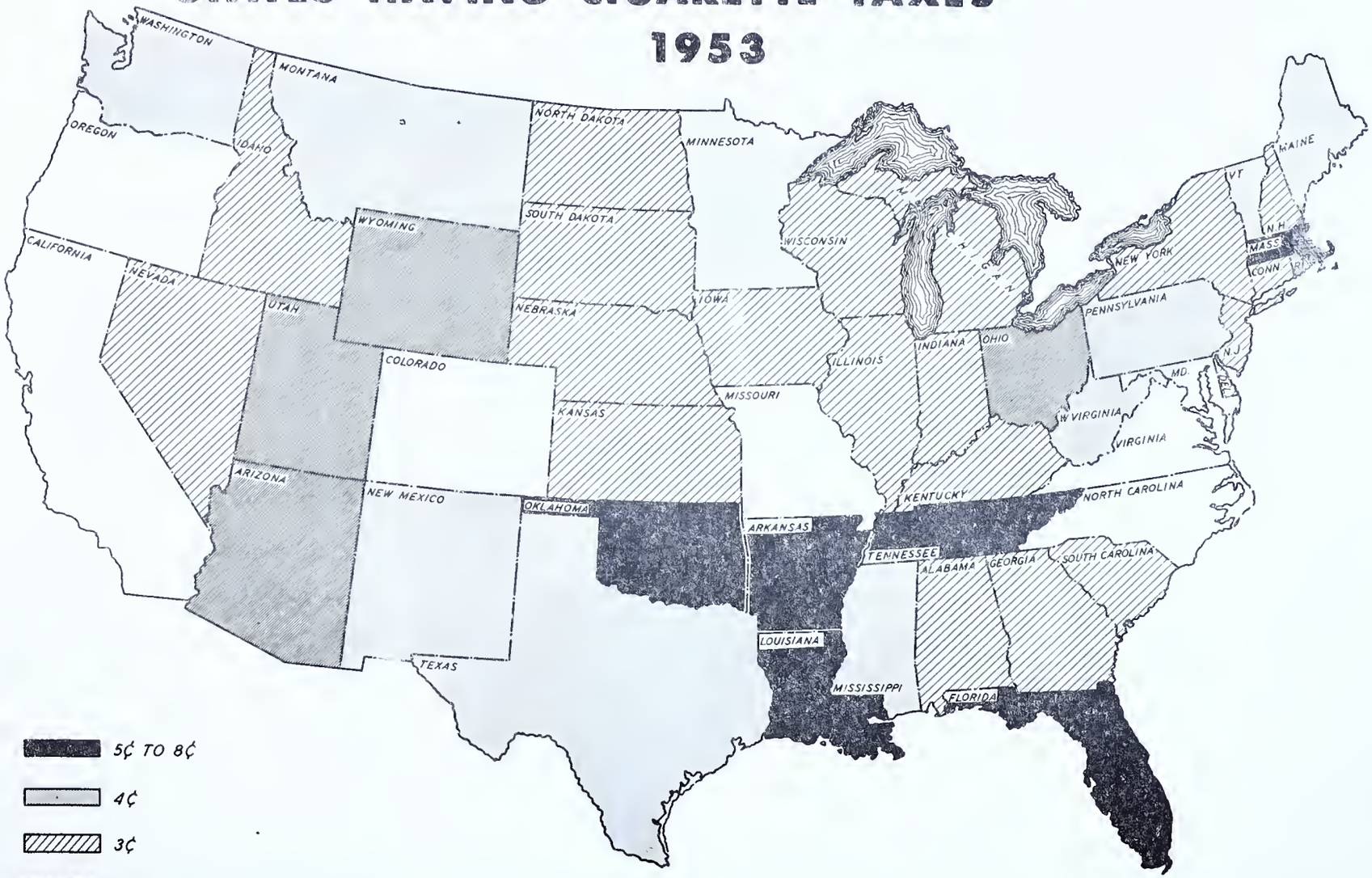


Table 41

STATE CIGARETTE TAX RATES, 1953
(Per Standard Package of 20 Cigarettes)

2¢	3¢	4¢	5¢	6¢	8¢
Arizona	Alabama	Maine	Florida	Arkansas	Louisiana
Ohio	Connecticut	Minnesota	Massachusetts		
Utah	Delaware	Mississippi	Oklahoma		
Wyoming	Georgia	Montana	Tennessee		
	Idaho	New Mexico			
	Illinois				
	Indiana	PENNSYLVANIA			
	Iowa				
	Kansas	Texas			
	Kentucky	Vermont			
	Michigan	Washington[2]			
	Nebraska	West Virginia			
	Nevada				
	New Hampshire[1]				
	New Jersey				
	New York				
	North Dakota				
	Rhode Island				
	South Carolina				
	South Dakota				
	Wisconsin				
Number of States					
4	21	10	4	1	1

Source: U. S. Treasury Department, "Overlapping Taxes in the United States", January 1, 1954. Commerce Clearing House, Inc.

[1]The Statutory rate is 15 per cent of the retail price.
[2]The Statutory rate is 2 cents for each 10 cents of the retail price or fraction.

Table 42

TAX REVENUES FROM CIGARETTES
Fiscal Years 1950-1952
(In thousands)

	Revenue 1950	Revenue 1951	Revenue 1952	Revenue 1953	Rank by State As To Total Revenue 1954	Revenue 1954	Percent of Total State Tax Collections 1954
California ...	.....	.....	.....	.....	..	.....	....
Connecticut ...	$ 7,648	$ 7,854	$ 8,443	$ 8,800	10	$ 8,774	5.31
Illinois	28,328	27,828	28,919	30,867	3	31,777	5.82
Indiana	12,678	12,980	13,319	13,767	8	13,481	4.71
Maryland	.....	.....	.....	.....	..	.....	....
Massachusetts .	25,930	26,509	26,743	28,364	4	27,537	8.41
Michigan	22,598	23,246	24,148	25,740	5	25,976	4.21
New Jersey ...	17,787	18,410	19,099	19,675	7	19,494	9.69
New York	56,684	58,486	59,769	61,609	1	60,011	5.29
North Carolina	.....	.....	.....	.....	..	.....	....
Ohio	18,144	18,951	19,816	20,800	6	20,431	3.79
PENNSYLVANIA ..	42,759	43,380	44,265	45,103	2	44,426	7.20
Virginia	.....	.....	.....	.....	..	.....	....
West Virginia	2,057	2,060	5,748	7,341	11	6,896	5.38
Wisconsin	9,950	10,079	10,418	10,629	9	10,396	3.98

Source: U. S. Bureau of the Census, "State Tax Collections" for each year.

Per capita cigarette consumption has tended to decline somewhat as a result of the trend toward king-size cigarettes and uneasiness over reports that cancer of the lungs is related to cigarette smoking. On the other hand, population is increasing and the total consumption of cigarettes has apparently not declined much. (Additional data on cigarette purchases are presented in the Appendix.)

The experience of Massachusetts and some of the other states with a tax rate of 5 cents a package or more would seem to show that Pennsylvania could increase cigarette tax collections considerably if the tax rate were increased from 4 to 5 cents. Advances in tax rates in Pennsylvania in the past have produced substantially more revenues, as Table 43 indicates.

It is estimated that cigarette tax collections would increase approximately $10 million a year if the tax rate were raised to 5 cents a package. On the other hand, such a tax rate increase would widen the margin between the tax rate in Pennsylvania and the surrounding states. If the fear of cancer from cigarette smoking becomes stronger and more widespread, purchasing will tend to decline, and the additional revenue which a tax rate increase would produce would be less than otherwise.

THE REALTY TRANSFER TAX

Since 1951 a state realty tansfer tax at a rate of one per cent has been imposed by Pennsylvania. It had a yield of $15.5 million in the fiscal year 1954.

Local governments have also been authorized to impose such taxes in Pennsylvania. On March 22, 1954, a total of 272 local deed transfer taxes were reported, including 188 levied by school districts. The tax rate of a local unit may not exceed one per cent and the combined state and local taxes, under present laws, may not exceed two per cent.

Pennsylvania seems to be the only state with a separate realty transfer tax. A few of the states with gross receipts taxes are reported to tax real estate transfers.

THE TAXES ON STOCK TRANSFERS AND LEGAL DOCUMENTS

Along with several other states, Pennsylvania taxes the transfer of capital stock. The tax rate is 2 cents on each $100 of market value but not over 2 cents on each $100 of face value or 2 cents for each share of no-par stock. Tax collections were $177,488 in the fiscal year 1954.

Pennsylvania and some of the other states also tax legal documents. Pennsylvania imposes a charge of 50 cents for recording deeds and mortgages and charges 25 to 50 cents for the issue of certain writs and other legal documents. The tax yield was $451,932 in the fiscal year 1954. A doubling of the charges on legal documents should double the revenue. The present rates are quite low and may even be inadequate to cover the administrative costs.

Table 43

CIGARETTE TAX RATES AND REVENUES
(In thousands)

Fiscal Year	Massachusetts		Tennessee		Pennsylvania	
	Rate Per Package	Total Revenue	Rate Per Package	Total Revenue	Rate Per Package	Total Revenue
1940	2¢	$ 7,361	3¢	$ 2,887	2¢	$11,983
1941	2¢	7,939	3¢	3,219	2¢	12,411
1942	2¢	8,363	3¢	3,820	2¢	13,727
1943	2¢	N.A.	3¢	4,471	2¢	13,789
1944	2¢	8,702	3¢	5,300	2¢	14,665
1945	2¢	7,527	3¢	4,730	2¢	12,322
1946	4¢	16,913	3¢	7,001	2¢	16,882
1947	4¢	20,530	3¢	7,649	2¢	20,988
1948	4¢	21,237	3¢	8,011	4¢	37,348
1949	4¢	21,286	3¢	8,206	4¢	41,128
1950	5¢	25,930	3¢	8,511	4¢	42,759
1951	5¢	26,509	3¢	9,730	4¢	43,380
1952	5¢	26,743	5¢	13,221	4¢	44,265
1953	5¢	28,364	5¢	13,647	4¢	45,103
1954	5¢	27,537	5¢	13,378	4¢	44,426

Sources: U. S. Bureau of the Census, "State Tax Collections" for each year, and Commerce Clearing House, Inc.

Chapter V

THE INHERITANCE AND ESTATE TAXES

Nearly all of the states tax inheritances. Many of them including Pennsylvania, supplement their inheritance taxes with an estate tax in order to obtain revenue which would otherwise go into the Federal treasury. Several states, including New York, tax estates only.

The rates and exemptions of the inheritance taxes in the group of 15 states whose finances are being compared are summarized in Tables 44 and 45. Pennsylvania taxes inheritances received by the surviving spouse or lineal heirs at a rate of 2 per cent. Widows or children are granted an exemption of $750, a relatively low amount. But in Pennsylvania the insurance not part of the estate, homesteads, and joint bank accounts of husband and wife are exempt. The states generally tax inheritances at graduated rates.

The Pennsylvania tax rate on inheritances of collateral heirs is 15 per cent. Such heirs are allowed no personal exemptions.

The 2 per cent Pennsylvania tax rate on direct heirs is higher than the initial tax rate in many of the states and lower than the maximum rate in most states. The 15 per cent rate on collateral heirs is comparatively heavy, since no exemptions are permitted and the entire inheritance is taxed at this rate.

In Pennsylvania bequests to charitable, educational, and religious institutions are ordinarily taxed at the 15 per cent rate. The only exemptions are bequests to municipalities and institutions for free public exhibition in Pennsylvania and to free public nonsectarian or national libraries anywhere. In this respect Pennsylvania is less generous than many other states.

The Federal government allows a credit against its estate tax for the payment of state estate taxes, provided that the credit shall not exceed 80 per cent of a Federal tax graduated from 1 to 20 per cent on the net values of estates exceeding $100,000. Pennsylvania, like the states generally, therefore, imposes an estate tax to supplement the inheritance tax, the latter being arranged to obtain for the state treasury the full benefit of the Federal credit.

INHERITANCE TAX REVENUES

Considerable revenue is procured from the Pennsylvania inheritance and estate taxes, amounting to $35.8 million, in the fiscal year 1954, or 8.6 per cent of the General fund revenues. Among the 15 leading states, Pennsylvania ranked after Connecticut in 1953 in the relationship of death tax collections to population, income payments, and percentage of total state and local tax revenues from this source.

If inheritance and estate tax rates are too high in a state, they tend to drive the more wealthy citizens into lower tax states or stimulate

Table 44

STATE INHERITANCE TAX RATES, 1954

State[1]	Spouse and Lineal Heirs	Collateral Heirs: Brothers and Sisters	Collateral Heirs: Others	Others	Maximum Rate Applies Above
California	2-10%	5-15%[5,6]	6-16%	7-16%	$ 500,000
Connecticut[2]	2-8	3-9[5,6]	6-12	6-12	1,000,000
Illinois	2-14	2-14	6-30	10-30	500,000
Indiana	1-10	5-15[5,6]	7-20	7-20	1,500,000
Maryland	1-7.5	7.5	7.5	7.5	11
Massachusetts[3]	1-11[5]	4-15	4-15	6-15	1,000,000
Michigan	2-8[7]	2-8[5,7]	10-15	10-15	750,000
New Jersey	1-16	5-16[5]	8-16	8-16[9]	3,700,000
North Carolina	1-12	4-16[6]	4-17	8-17	3,000,000
Ohio	1-4	5-8[5,6]	7-10	7-10[10]	200,000
PENNSYLVANIA	2[5]	15	15	15	11
Virginia	1-5	2-10[6]	5-15	5-15	1,000,000
West Virginia[1]	3-13	4-18	7-25	7-30[10]	1,000,000
Wisconsin[4]	2-10	2-10[5,6]	6-40[8]	8-40[8]	500,000

Sources: Commerce Clearing House, Inc., and Tax Foundation.

[1]All states except Idaho, South Dakota, and West Virginia, levy an estate tax to assure full absorption of the 80% federal credit.
[2]Additional exemptions either for insurance, homesteads, joint deposits, support, allowance, disinherited minor children, orphaned, incompetent or blind children, and/or previously or later taxed transfers.
[3]Massachusetts imposes an additional tax of 20% of the inheritance tax and a second additional tax of 3%.
[4]Wisconsin imposes an additional tax of 30% on the tax otherwise payable.
[5]Same rate applies to daughters-in-law and sons-in-law.
[6]Same rate applies to nieces and nephews.
[7]Transfers of real estate are taxable at three-fourths of specified rates.
[8]Subject to statutory limitation that total tax not exceed 15% of the property transferred to the beneficiary.
[9]Charitable, benevolent and religious organizations: exemption $5,000, rate 5%.
[10]Same rate applies to grandparents.
[11]Entire Share.

Table 45

STATE INHERITANCE EXEMPTIONS, 1954[1,2]

State[3]	Lineal Heirs: Spouse[4]	Lineal Heirs: Children[5]	Lineal Heirs: Parents	Lineal Heirs: Other	Collateral Heirs: Brothers and Sisters	Collateral Heirs: Other	Collateral Heirs: Other
California	$5,000-$24,000[6]	$5,000-$12,000	$ 5,000	$ 5,000	$ 2,000[7,8]	$50- $500	$50
Connecticut	10,000	10,000	10,000	10,000	3,000[7,8]	500	500
Illinois	20,000	20,000	20,000	20,000[7]	10,000	100- 500	100
Indiana	2,000-15,000	2,000- 5,000	2,000	2,000	500[7,8]	100	100
Maryland	150[11]	150[11]	150[11]	150[11]	150[11]	150[11]	150[11]
Massachusetts	10,000[10,11]	10,000[11]	10,000[11]	1,000[11]	1,000[11]	1,000[11]	1,000[11]
Michigan	30,000[9,10]	5,000	5,000	5,000	5,000[7]	100[11]	100[11]
New Jersey	5,000	5,000	5,000	5,000	500[7,11]	500[11]	500[11,14]
North Carolina	2,000- 10,000[10]	2,000- 5,000	2,000	$2,000- 5,000	None	None	None
Ohio	3,500- 5,000[10]	3,500- 5,000[10]	3,500	3,500	500[7,8]	None	None[12]
PENNSYLVANIA	None- 750	None[10]	None	None	None	None	None
Virginia	5,000	5,000	5,000	5,000	2,000[8]	1,000	1,000
West Virginia[3]	15,000[10]	5,000[10]	5,000[10]	2,500[10]	100[11]	100[11]	100[11,12]
Wisconsin[13]	5,000- 15,000	2,000	2,000	2,000	2,000[7,8]	100- 250	100

Table 45 (Continued)

STATE INHERITANCE EXEMPTIONS, 1954
Lineal Heirs

Sources: Commerce Clearing House, Inc. and Tax Foundation.

[1]Heirs are subdivided in all the states into various differing classes. For purposes of simplification, wherever practicable, classes have been combined.
[2]Generally, transfers to either the United States, other states, the state itself or any of its subdivisions, or to solely charitable, educational, scientific, religious, literary, public and other similar organizations are wholly exempt.
[3]All states except Idaho, South Dakota, and West Virginia, levy an estate tax to assure full absorption of the 80% federal credit.
[4]Where two figures are given, the lower is the widower's exemption and the higher is the widow's.
[5]Where two figures are given, the higher is for minor children.
[6]Community property state in which, in general, either all community property to the surviving spouse is exempt, or only one-half of the community property is taxable on the death of either spouse.
[7]Same rate applies to daughters-in-law and sons-in-law.
[8]Same rate applies to nieces and nephews.
[9]Transfers of real estate are taxable at three-fourths of specified rates.
[10]Additional exemptions either for insurance, homestead, joint deposits, support allowance, disinherited minor children, orphaned, incompetent of blind children, and/or previously or later taxed transfers.
[11]No exemption if share exceeds the amount stated.
[12]Same rate applies to grandparents.
[13]Wisconsin imposes an additional tax of 30% on the tax otherwise payable.
[14]Charitable, benevolent, and religious organizations: exemption $5,000; rate 5 percent.

Table 46

PENNSYLVANIA INHERITANCE AND
ESTATE TAX COLLECTIONS

(In millions)

Fiscal Year	Collections	Percent of General fund Revenues*
1940	$18.6	9.8%
1941	15.4	7.9
1942	13.3	6.1
1943	13.4	5.8
1944	16.6	7.3
1945	18.4	8.2
1946	19.6	9.8
1947	19.2	8.3
1948	22.9	7.4
1949	23.9	7.1
1950	20.5	6.2
1951	26.1	7.3
1952	26.1	7.4
1953	33.2	8.3
1954	35.8	8.6

Source: State Budget Bureau.

*Excluding federal aid.

Table 47

INHERITANCE AND ESTATE TAX COLLECTIONS, FISCAL YEAR 1954

(In millions)

State	Collections	Percent of Total State Tax Collections
California	$25.5	2.1%
Connecticut	9.5	5.7
Illinois	12.2	2.2
Indiana	3.8	1.3
Maryland	3.7	2.0
Massachusetts	14.4	4.4
Michigan	10.6	1.7
New Jersey	11.9	5.9
New York	29.3	2.6
North Carolina	4.6	1.6
Ohio	6.7	1.2
PENNSYLVANIA	35.8	5.8
Virginia	2.0	1.0
West Virginia	1.9	1.5
Wisconsin	7.5	2.9

Source: U. S. Bureau of the Census, "State Tax Collections in 1954

the distribution of property before death by gifts. Reducing or eliminating the exemptions of insurance, homesteads, and joint banks accounts when they are left to the surviving spouse, would increase revenues. However, this would tax some of the smaller estates now exempt, would increase taxes on the smaller estates as well as the larger, and would disallow benefits which some other states permit.

TAXING GIFTS

In Pennsylvania, only those gifts made within one year of death are taxable. If all gifts were taxed, increased revenue could be obtained. Twelve states now collect separate gift taxes which tax property transfers among the living in a manner somewhat similar to such transfers at death. The rates and exemptions of these taxes vary from state to state. The gift tax rates may be equal to or lower than the inheritance tax rates.

California raised $1.4 million from a gift tax in the fiscal year 1952, with the same rates and exemptions as the inheritance tax. With features similar to those of the inheritance tax, Pennsylvania should be able to raise approximately $1.5 million a year from a gift tax.

INCREASED REVENUE FROM FEDERAL TAX CREDIT

The present credit against the payment of Federal estate taxes for the payment of state death taxes is of such limited applicability that a state may obtain only 10 to 15 per cent of the total Federal tax collected. This is unfair to the states.

State laws govern property transfers at death. The states commonly established their inheritance taxes before the Federal estate tax was adopted in 1916, and they have relatively more limited tax sources than the Federal government.

The credit against the Federal estate tax for the payment of similar state taxes should be increased to at least 50 per cent. This would provide increased revenues to Pennsylvania of approximately $30 million annually, at the present Federal tax rates, without imposing more taxes on estates, provided the states enacted suitable legislation. In 1951 Pennsylvania obtained only $9.2 million in revenue from the credit against the Federal taxes of approximately $70 million on 12.9 per cent of that amount.

A similar credit of at least 50 per cent should be allowed against the Federal gift tax for the payment of state gift taxes. At the present time, no credit is allowed. At the present Federal gift tax rates, such a credit would make available to Pennsylvania additional annual revenues of approximately $3 million.

Chapter VI

THE PENNSYLVANIA CORPORATION TAXES

Taxes may conveniently be collected from corporations but they eventually fall upon investors, consumers, employees, and in some measure upon the entire community. Since these taxes are hidden and their direct effects may be unknown, many persons regard them as very good taxes, forgetting that corporation taxes, like all other taxes, must be borne by individuals.

If corporation taxes reduce the incomes of investors, they tax all stockholders, rich and poor at the same rates and without exemptions. If, on the other hand, they are shifted on to consumers in higher prices, as many persons suppose, they disregard the abilities of individuals to pay taxes, hitting them all at the same rate and with no exemptions.

Within moderate limits, corporate and other taxes may be imposed without seriously injuring individual investment, consumption, employment, and other economic activity. But excessive taxation is not only inequitable in its burdens on the investors, consumers, and others who feel its effects, it also weakens the competitive position of those who are taxed and reacts to the disadvantage of the whole economy.

Pennsylvania is known as a high corporation tax state. A comparison of corporation tax collections among 15 leading states in an earlier chapter has demonstrated the validity of this conclusion. In 1953 and 1954, Pennsylvania corporation taxes were found to be higher than in any other state in the group. Because of the great revenue importance of corporation taxes in Pennsylvania and their influence upon exonomic activity, it will be desirable to appraise them as revenues. The revenues derived from the corporation and other principal business taxes are summarized in Tables 48 and 50.

THE CORPORATION EXCISE (BONUS CHARGES)

A tax of minor revenue significance is the excise tax or bonus charge imposed on the authorized capital stock of corporations at a rate of one-fifth per cent on domestic corporations for the privilege of carrying on business and employing capital in the Commonwealth. Foreign corporations are taxed only on the capital invested in tangible property which is wholly employed in Pennsylvania.

The tax is paid only once, not every year. Collections from domestic corporations were $1.2 million in the fiscal year 1954, from foreign corporations $4.2 million, a total of $5.4 million.

Continuing criticism is directed against the tax by corporations. It is said to discourage new corporations from being organized in Pennsylvania and foreign corporations from entering the state to engage in business and for being excessive in relation to the administrative costs.

Table 48

ANNUAL REVENUES

From Principal Pennsylvania Business Taxes

Fiscal Years 1940-1954
(In thousands)

Fiscal Year	Corporate Net Income Tax*	Domestic Capital Stock Tax	Foreign Capital Stock Tax (Franchise)	Gross Receipts Tax on Public Utilities	Premiums Tax on Insurance Cos.	Shares Tax on Banks and Trust Cos.
1940	$23,647	$21,034	$ 6,837	$ 7,777	$ 6,792	$ 6,319
1941	29,697	21,997	7,106	8,282	6,151	6,392
1942	39,919	23,603	11,049	9,476	8,424	7,094
1943	50,702	25,833	10,303	9,823	7,617	7,234
1944	66,317	24,419	10,021	10,293	8,177	3,605
1945	63,181	23,695	9,844	7,301	8,363	2,404
1946	42,940	22,584	9,143	7,206	9,296	3,169
1947	50,661	22,355	8,837	7,132	9,450	4,733
1948	73,424	28,586	10,325	8,601	10,450	3,439
1949	79,570	34,643	13,827	9,858	9,746	4,209
1950	63,968	35,663	14,682	9,806	13,253	5,193
1951	91,178	38,161	15,593	11,024	8,197	6,399
1952	127,942	40,441	17,104	14,066	13,747	4,154
1953	143,470	39,545	17,562	14,916	16,165	6,054
1954	121,659	40,036	17,398	13,968	14,076	4,112

Source: State Budget Bureau

* Includes Penalties and Interest

Table 49

ANNUAL REVENUES

From Principal Pennsylvania Business Taxes

Fiscal Years 1940-1954
Percent Increase or Decrease (-) over 1940

Fiscal Year	Corporate Net Income Tax	Domestic Capital Stock Tax	Foreign Capital Stock Tax (Franchise)	Gross Receipts Tax on Public Utilities	Premium Tax on Insurance Cos.	Shares Tax on Banks and Trust Cos.
1940	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1941	25.6	4.6	5.9	- 6.5	-9.4	1.2
1942	68.8	12.2	61.6	21.8	24.0	12.3
1943	114.4	22.8	50.7	26.3	12.1	14.5
1944	180.4	16.1	46.6	32.3	20.4	-42.9
1945	167.2	12.6	44.0	- 6.1	23.1	-62.0
1946	181.6	7.4	33.7	- 7.3	36.9	-49.8
1947	114.2	6.3	29.3	- 8.3	39.1	-25.1
1948	210.5	35.9	51.0	10.6	53.9	-45.6
1949	236.5	64.7	102.2	26.8	43.5	-33.4
1950	170.5	69.5	114.7	26.1	95.1	-17.8
1951	285.6	81.4	128.1	41.7	20.7	1.3
1952	441.0	92.3	150.2	80.9	102.4	-34.3
1953	506.7	88.0	156.9	91.8	138.0	- 5.0
1954	414.5	90.3	154.3	79.6	107.2	-35.1

Source: State Budget Bureau

Table 50

ANNUAL REVENUES

From Principal Pennsylvania Business Taxes

Fiscal Years 1940-1954
Percent of Total General Fund Revenues

Fiscal Year	Corporate Net Income Tax	Domestic Capital Stock Tax	Foreign Capital Stock Tax	Gross Receipts Tax on Public Utilities	Premium Tax on Insurance Cos.	Shares Tax on Banks and Trust Cos.
1940	12.5%	11.1%	3.6%	4.1%	3.6%	3.3%
1941	15.3	11.3	3.7	4.3	3.2	3.3
1942	18.3	10.8	5.1	4.4	3.9	3.3
1943	22.0	11.2	4.5	4.3	3.3	3.1
1944	29.1	10.7	4.4	4.5	3.6	1.6
1945	28.3	10.6	4.4	3.3	3.7	1.1
1946	21.4	11.3	4.6	3.6	4.6	1.6
1947	21.8	9.6	3.8	3.1	4.1	2.0
1948	23.7	9.2	3.3	2.8	3.4	1.1
1949	23.6	10.3	4.1	2.9	2.9	1.2
1950	19.5	10.9	4.5	3.0	4.0	1.6
1951	25.3	10.6	4.3	3.1	2.3	1.8
1952	31.3	9.9	4.2	3.4	3.4	1.0
1953	31.6	8.7	3.9	3.3	3.6	1.3
1954	26.0	8.6	3.7	3.0	3.0	.9

Source: State Budget Bureau

If this tax is not abandoned, it could well be reduced to a level which would merely cover the administrative costs.

Interest-bearing evidences of indebtedness issued by corporations doing business in Pennsylvania and held by individual residents or assumed by the corporations paying interest on them are taxed at a rate of four mills. The tax is imposed on the amount of loans, not their value. Few corporations now assume the tax, which is commonly withheld from interest payments.

The corporate loans tax is a supplement to the county personal property taxes on intangibles. The latter are not levied on corporate loans taxed by the state.

The revenues from the corporate loans tax have been falling year after year and werre only $1.5 million in the fiscal year 1954. Of this sum, $1.4 million were collected from domestic corporations and $118,000 from foreign.

The main criticism of the corporate loans tax is its relatively high cost of administration and compliance. It applies only to resident investors, who must be singled out for taxation from the lists of loan owners by corporations. Much is to be said for its abandonment by the state.

If the corporate loans tax is continued, it could be turned over to the counties for collection along with their personal property taxes on other property.

THE CORPORATE NET INCOME TAX

The biggest source of General Fund revenue in Pennsylvania is the five per cent corporate net income tax. It produced $121.7 million in the fiscal year 1954, including revenues from a supplementary property-income tax, or 26.0 per cent of the total General Fund revenues.

The supplementary property-income tax was enacted in 1951 to reach certain interstate net income from property in Pennsylvania escaping the net income tax. Its yield has been small, amounting to only $1.6 million in the fiscal year 1954.

The revenues from the corporate net income tax have increased tremendously. In 1940, they were only $23.6 million. In 1953, because of the acceleration of payment, they soared to a peak of $143.5 million. Collections in 1954 were $121.7 million, an increase of 44.5 per cent over 1940. The revenues obtained from the corporate net income and capital stock taxes and the special business taxes in Pennsylvania from 1940 to 1954 are shown in Tables 48 - 50.

AN EMERGENCY MEASURE

The corporate net income tax was enacted in Pennsylvania in 1935 as an emergency measure and has been renewed every two years from that time

as a temporary tax. By this time the tax has become a continuing revenue. It is an excise imposed upon the privilege of doing business in the Commonwealth, as measured by net income.

In the beginning, Pennsylvania taxed corporate net income after Federal income and profits taxes had been deducted. From 1943 on, however, these taxes have not been allowed as deductions. The basis for the Pennsylvania corporate net income tax, is in general, net income as determined for Federal taxation.

THE CORPORATE NET INCOME TAX AMONG THE STATES

Pennsylvania is now one of 32 states taxing the net income of corporations. As reported by the Bureau of the Census, these states collected approximately $771 million from corporate net income taxes in the fiscal year 1954. New York collected the most, or $204 million. California was next, with nearly $126 million, and Pennsylvania was third, with nearly $122 million. Corporations are not subject to a capital stock in New York if they pay an income tax, however, and in California there is no state capital stock tax. Pennsylvania, on the other hand, has a relatively high capital stock tax in addition to the state income tax.

Among the 15 leading states whose finances are being compared, six do not tax corporation incomes. Two other states allow the Federal corporate income tax to be deducted. Eight states, including Pennsylvania, do not allow the Federal corporate income tax to be deducted. The tax rates in the latter group of states in 1954 and the treatment of capital stock are indicated in Table 51.

Table 51

Corporate Net Income Tax Rates of States not allowing Federal Income Tax to be Deducted, 1954.

State	Corporate Income Tax Rate	Is Capital Stock Taxed?	Is Capital Stock Tax An Alternative Tax?	Is Capital Stock Tax An Additional Tax?
California	4.0 %[a]	No		
Connecticut	3.75 [b]	Yes	Yes	
Maryland	4.0 [c]	Yes		Yes
Massachusetts	6.75	Yes		Yes
New York	5.5 [a]	Yes	Yes	
North Carolina	6.0	Yes		Yes
PENNSYLVANIA	5.0	Yes		Yes
Virginia	5.0 [d]	Yes		Yes

[a] Minimum tax $25
[b] Minimum tax $15
[c] Domestic corporations are allowed a credit for franchise tax payments in excess of $25
[d] Subject to a reduction of 6.0% in 1954

Source: Commerce Clearing House, Inc.

Since the determination of net income for tax purposes varies somewhat from state to state, the tax rates do not entirely measure the tax liabilities in the different states. The capital stock taxes and their rates also vary among the states. In the group of 15 leading states, there are 5 which tax both corporate net income and capital stock, among these 5 states only Massachusetts has a combination of taxes similar in weight to that of Pennsylvania at the present time. North Carolina has a higher net income tax rate than Pennsylvania but taxes capital stock at a rate of only 1.5 mills instead of the 5 mills imposed in Pennsylvania. The Virginia capital stock tax is also a relatively light addition to the 5 per cent income tax. The low Maryland capital stock tax is added to a 4 per cent net income tax.

The total corporation tax collections of $185.7 million in Pennsylvania in the fiscal year 1954 were exceeded only in New York, with total corporation taxes of $205.6 million.

In percentage of corporation taxes of total state tax collections and state liquor store profits in the fiscal year 1954, Pennsylvania ranked first among the 15 leading states.

SMALL CORPORATIONS ARE BURDENED

The great majority of corporations engaging in business in Pennsylvania are small concerns. A tabulation of 25,305 corporation tax settlements in 1952 by the Department of Revenue indicated that 36.7 per cent of the corporations involved had no net income. While they would pay no net income tax, they would presumably pay a capital stock tax. Of the taxable corporporations, 27.1 per cent paid a tax of less than $100 and 66.6 per cent a tax of less than $1,000. A tabulation of corporation income and capital stock tax settlements for the six months ending November 30, 1953, further demonstrates that the great majority of corporations carrying on business in Pennsylvania are small firms. (See Table 51A)

That most corporations paying income taxes are small is also demonstrated by U. S. Treasury statistics. Corporate returns for 1951, the latest year for which data are available, reveal that of the 439,047 corporations reporting net income for Federal taxation, 347,275, or 79.1 per cent, had net incomes under $25,000.

Some persons contend that it makes little difference how high the state corporate income tax becomes because the state tax is deductible in determining net income for Federal taxation. It should be kept in mind that the Federal tax rate on corporations with net incomes up to $25,000 is 30 per cent. This means that only 30 per cent of the state income tax liability can be offset against the Federal tax liability.

On corporate net income exceeding $25,000, the Federal income tax rate is 52 per cent. The value of the deductibility of state income taxes in computing taxable income for Federal purposes is thus substantially less

Table 51-A

SETTLEMENTS FOR MAJOR CORPORATION TAXES IN PENNSYLVANIA*

6 Month Period
June, 1953 - November, 1953

Tax Bracket		Number of Returns	Number Of Returns: Capital Stock Tax	Capital Stock No Tax	Franchise Tax	Franchise No Tax	Domestic Tax	Domestic No Tax	Corporate Net Income: Foreign Tax	Foreign No Tax
-	99	8,098	6,932	23	825	318	2,436	4,520	501	641
100	249	3,086	2,721	1	361	3	1,992	730	282	82
250	499	2,539	2,234	-	305	-	1,836	398	256	49
500	749	1,294	1,109	-	184	1	962	147	149	36
750	999	848	680	-	168	-	607	73	156	12
1,000	2,499	1,645	1,273	-	372	-	1,142	132	319	52
2,500	4,999	675	502	-	173	-	449	53	142	31
5,000	7,499	194	123	-	71	-	106	17	62	9
7,500	9,999	117	73	-	44	-	60	13	40	4
10,000	24,999	226	136	-	89	1	114	19	84	9
25,000	49,999	101	55	-	46	-	46	9	38	8
50,000	74,999	39	25	-	14	-	24	1	13	1
75,000	99,999	14	9	-	5	-	9	-	4	1
100,000	249,999	30	19	-	11	-	16	3	10	1
250,000	499,999	5	2	-	3	-	2	-	3	-
500,000	749,999	5	4	-	1	-	3	1	1	-
750,000	999,999	-	-	-	-	-	-	-	-	-
1,000,000	or over	3	3	-	-	-	2	1	-	-
Totals		18,919	15,900	24	2,672	323	9,806	6,117	2,060	936

Source: Pennsylvania Department of Revenue.

Note: Data may not add to totals because of rounding.
*Includes only tax obligations for the calendar and fiscal year 1952 based on reports due on and after March 15, 1953.

Table 51-A (Cont'd)

SETTLEMENTS FOR MAJOR CORPORATION TAXES IN PENNSYLVANIA*

6 Month Period
June, 1953 - November, 1953

Tax Bracket		Amount Of Tax Settlements: Total Amount Dom. & For.	Capital Stock & C.N.I.	Franchise & C.N.I.	Capital Stock	Franchise	Corporate Net Income: Domestic	Corporate Net Income: Foreign
-	99	$ 737,831	$ 626,997	$ 110,834	$ 177,389	$ 27,383	$ 450,396	$ 82,661
100	249	1,457,062	1,128,039	329,022	433,933	59,750	694,105	269,271
250	499	2,307,499	2,008,528	298,970	785,622	109,178	1,222,905	189,792
500	749	2,022,803	1,611,073	411,730	653,311	111,449	951,485	306,557
750	999	1,877,628	1,488,405	389,223	578,642	139,858	909,762	249,365
1,000	2,499	7,108,083	5,340,048	1,768,035	1,932,178	587,013	3,407,870	1,181,021
2,500	4,999	7,628,509	5,697,765	1,930,744	1,882,517	637,681	3,815,247	1,293,062
5,000	7,499	3,654,438	2,359,289	1,295,148	747,474	498,224	1,615,737	793,002
7,500	9,999	2,829,447	1,683,258	1,146,189	611,849	390,492	1,051,747	775,358
10,000	24,999	11,095,403	6,263,618	4,831,785	2,019,687	1,457,056	4,255,579	3,363,079
25,000	49,999	9,407,866	5,440,662	3,967,203	1,898,822	1,399,147	3,541,840	2,568,055
50,000	74,999	7,012,143	4,227,435	2,784,707	1,684,657	1,014,657	2,542,778	1,770,049
75,000	99,999	3,110,309	1,926,510	1,183,799	687,983	394,997	1,238,527	788,801
100,000	249,999	12,862,331	8,009,062	4,853,269	3,145,012	1,637,918	4,864,049	3,215,351
250,000	499,999	6,597,468	2,334,178	4,263,289	723,310	958,862	1,610,867	3,304,427
500,000	749,999	6,922,828	6,037,200	885,627	2,618,584	526,531	3,418,616	359,096
750,000	999,999	-	-	-	-	-	-	-
1,000,000	or over	8,808,468	8,376,880	431,587	3,623,426	120,185	4,753,454	311,402
Totals		$95,440,123	$64,558,954	$30,881,168	$24,204,403	$10,070,390	$40,344,972	$20,820,355

Source: Pennsylvania Department of Revenue.

Note: Data may not add to totals because of rounding.
*Includes only tax obligations for the calendar and fiscal year 1952 based on reports due on and after March 15, 1953.

Table 52

RATES OF ANNUAL CORPORATION NET INCOME AND CAPITAL STOCK TAXES
Selected States; January 1, 1953

State	Income Tax	Capital Stock Tax
California	4% or $25, whichever is greater. Federal Income Taxes not deductible.	None
Connecticut	3.75% of net income or 1½ mills on capital or $15, whichever is greatest. Federal Income Taxes not deductible.	
Illinois	None	½ mill on stated capital plus paid in surplus representing property and business in Illinois.
Indiana	None	None
Maryland	4%, Federal Income Taxes not deductible.	Graduated from $10 up to $480 for $10,000,000, plus $30 for each additional $2,000,000 or fraction thereof for domestic.
Massachusetts	6.75%, Federal Income Taxes not deductible.	6.15 mills on corporate excess.
Michigan	None	4 mills, minimum $10.
New Jersey	None	8/10 mill on first $100,000,000. Diminishes to 2/10 mill on capital over $300,000,000. Minimum, $25 for domestic, $50 for foreign.
New York	5.5% of net income or 30% of net income plus certain salaries, or 1 mill on capital, plus tax on subsidiary capital decreasing from ½ mill on first $50,000,000 to 1/8 mill on amount over $100,000,000, or $25, whichever is greatest. Federal Income Taxes not deductible.	
North Carolina	6%, Federal Income Taxes not deductible.	1½ mills, minimum $10.
Ohio	None	1 mill, minimum $25.
PENNSYLVANIA	5% Federal Income Taxes not deductible.	5 mills, no statutory minimum.
Virginia	5%, Federal Income Taxes not deductible	Graduated from $10 up to $15,100 on $300,000,000 plus $10 on each additional $1,000,000 for domestic and from $5 on $15,000 up to $25 on amount over $300,000 for domestic and foreign.
West Virginia	None	Graduated from $20 on $5,000 up to $2,500 on $15,000,000 or more for domestic. Foreign pay 50% more and must pay $150 minimum.
Wisconsin	2 to 7%. Deduction allowed for Federal Income Taxes.	None

Source: Commerce Clearing House, Inc.

Note: Special taxes may be imposed upon financial or other corporations in lieu of the general corporation taxes. In this table general property, intangible property, and other taxes not imposed specifically as corporation taxes are excluded. Local taxes are also excluded.

for small income corporations than for those with large incomes.

Another disadvantage of small corporations should be kept in mind. While business losses in one year may be carried over and averaged against net income for the two preceding years and the five succeeding years for Federal taxation, the net operating loss carryover is not allowed by Pennsylvania. Small corporations tend to have more irregular earnings and are more prone to losses than the larger corporations. Over a period of years, because business losses are not allowed in determining the taxable income of corporations in Pennsylvania, small corporations suffer a tax handicap in the competive struggle.

The higher the state corporation net income tax rate becomes, the more it penalizes the numerous small corporations which constitute the vast majority of corporate enterprises doing business in Pennsylvania.

THE ACCELERATION OF CORPORATE INCOME TAX PAYMENTS

A curious device was adopted in Pennsylvania by the General Assembly in 1951. By April 30, 1955, corporations must make a partial advance payment of what formerly would have been a 1956 tax payment by either (a) paying a tax of 2.5 per cent of their 1954 net income or (b) paying 10 per cent of their net income of the first three months of the current 1955 calendar or fiscal year.

The arrangement advanced the dates of corporate net income tax payments without increasing the tax rate after 1953 and caused corporate income tax payments to spurt up to $142.5 million in the fiscal year 1953. In effect, the 1953 tax rate was 7.5 per cent and the basic rate of 5.0 per cent was resumed in 1954, with a sharp decline in tax receipts.

No other state has resorted to this expedient, which temporarily alleviates a tight budgetary situation without providing any real remedy. It was apparently suggested by the Federal advancement of corporate income tax payments.

As the Tax Study Committee declared in its 1953 report, "The corporate net income tax acceleration is an unhappy and thoroughly confusing arrangement which should be discarded at the earliest opportunity. The corporate net income tax rate should be directly and openly specified."

The difficulty is that once a state is committed to such a subterfuge, it can only be given up by paying the price, that is, by suffering a temporary loss of revenue to offset the temporary gain from acceleration or by increasing taxes somewhere to make up the cost of abandoning the acceleration.

THE CAPITAL STOCK AND FRANCHISE TAXES

Substantial taxes on capital stock have long been a part of the Pennsylvania state revenue structure. The five mill capital stock tax is

levied on domestic corporations, joint stock companies, and limited partnerships. The tax is not imposed on banks, savings institutions, building and loan associations, title insurance and trust companies, cooperative associations, and so-called foreign, or non-Pennsylvania, corporations, except distilling companies. However, a similar five mill tax is imposed on the capital stock of foreign corporations chartered in other states.

These taxes are paid annually on the assessed values of capital stock. Valuation is a matter of judgment, over which there can be considerable disagreement, particularly in view of the fact that the law only declares that certain factors are to be considered. They include the market prices of the stock during the year, the value as affected by net income, dividends, retained profits, and the intrinsic value of the tangible property and other assets, including goodwill, franchises, and privileges, after allowing for indebtedness. Other relevant factors may also be weighed.

The capital stock tax is levied on the value of assets in Pennsylvania, allocated to this state according to the ratio of the value of capital assets in Pennsylvania to the value of the total assets.

The valuation of the capital stock of foreign corporations for the franchise tax is determined in relation to the same factors as those considered for domestic corporations, but the allocation formula is different. The formula gives equal weight to three factors--the ratios of tangible property, pay rolls, and gross receipts. Under certain conditions taxes may be reduced by incorporating as a foreign corporation, namely when the proportions of pay rolls and gross receipts allocated to other states exceed the proportion of tangible property in Pennsylvania of the total.

Domestic corporations should have the same tax advantages as foreign corporations. One method to accomplish this result would be that of permitting such corporations to utilize the same allocation formula as foreign corporations. Providing equality of treatment in this manner would involve some loss of revenue, of an amount unknown.

INHERENT WEAKNESSES OF CAPITAL STOCK VALUATION

The valuation of capital stock for taxation, unless it follows a specific and easily determined process, is inevitably very complicated and subject to differences of honest opinion which may be quite wide.

Values are thus found through a process of negotiation. Some taxpayers may be pleased with the outcome, others may feel their values are too high. No one really knows how values, in general, are determined.

Taxpayers may ask for a review of the valuation set by the Department of Revenue by the Resettlement Board, consisting of the Secretary of Revenue and the Auditor General or their representatives. If the Board decision is unsatisfactory the taxpayer may appeal to the Board of Finance and Revenue, whose members are the Secretary of Revenue, State Treasurer, Auditor General, Attorney General, and Secretary of the Commonwealth. The decision here may further be appealed to the Dauphin County Court of Common Pleas and finally to the Supreme Court of the Commonwealth.

The outcome may still be unsatisfactory to the taxpayer. Since no specific valuation formula must be followed, in the end it is a matter of judgment what a proper value is.

One is reminded here of the difficulties and inequities so common in assessing real estate for local property taxes. A tax based on valuations depending upon human judgments is necessarily subject to great complexities and many inequities.

THE UNECONOMIC NATURE OF CAPITAL STOCK TAXES

Capital stock valuations for the capital stock and franchise taxes may be affected by the income position of a corporation but they are not determined by it. These taxes must be paid whether a corporation suffers a loss or not and whether the rate of return on the inventment is low or high. They therefore act substantially as a fixed charge, like property taxes. This is an advantage immediately to the flow of revenue, but the taxes may be a detriment to the survival of struggling corporations and a discouragement to the organization of new enterprises with rather uncertain initial earnings prospects.

As a part of its 1953 report the Tax Study Committee sent out a questionnaire to numerous corporations concerning the impact of Pennsylvania taxes on decisions to expand or modernize plant facilities in Pennsylvania. Of the 1904 replies received, 38 per cent declared that the capital stock tax was a deterrent. The smaller corporations, in particular, reported this conclusion.

THE CAPITAL STOCK TAX AS A REVENUE

The capital stock is continued in Pennsylvania because it provides large and rather stable revenues, not because corporations generally regard it as an equitable and reasonable tax. The 5 mill capital stock tax in conjunction with the 5.0 per cent corporate net income tax, places a heavy tax burden on corporations in Pennsylvania, in comparison with the taxes of competing industrial and commercial states.

In the fiscal year 1954, the capital stock tax collections of $57.1 million were 46.9 per cent of the corporation income tax collections. For concerns with low earnings, the tax may exceed the net income tax.

The only other state with a similar tax pattern is Massachusetts, where a tax at a rate of 6.15 mills is placed upon corporate excess. This tax is levied only on the intangible value of a corporation in excess of the value of tangible property taxed locally and not on the total value of capital stock.

As previously pointed out, Pennsylvania is deriving relatively more revenue from corporation taxes than Massachusetts. In relation to income payments and population, the Pennsylvania corporation taxes are also heavier than those of Massachusetts.

CHART 16

STATE TAXES PAID BY 40 CORPORATIONS

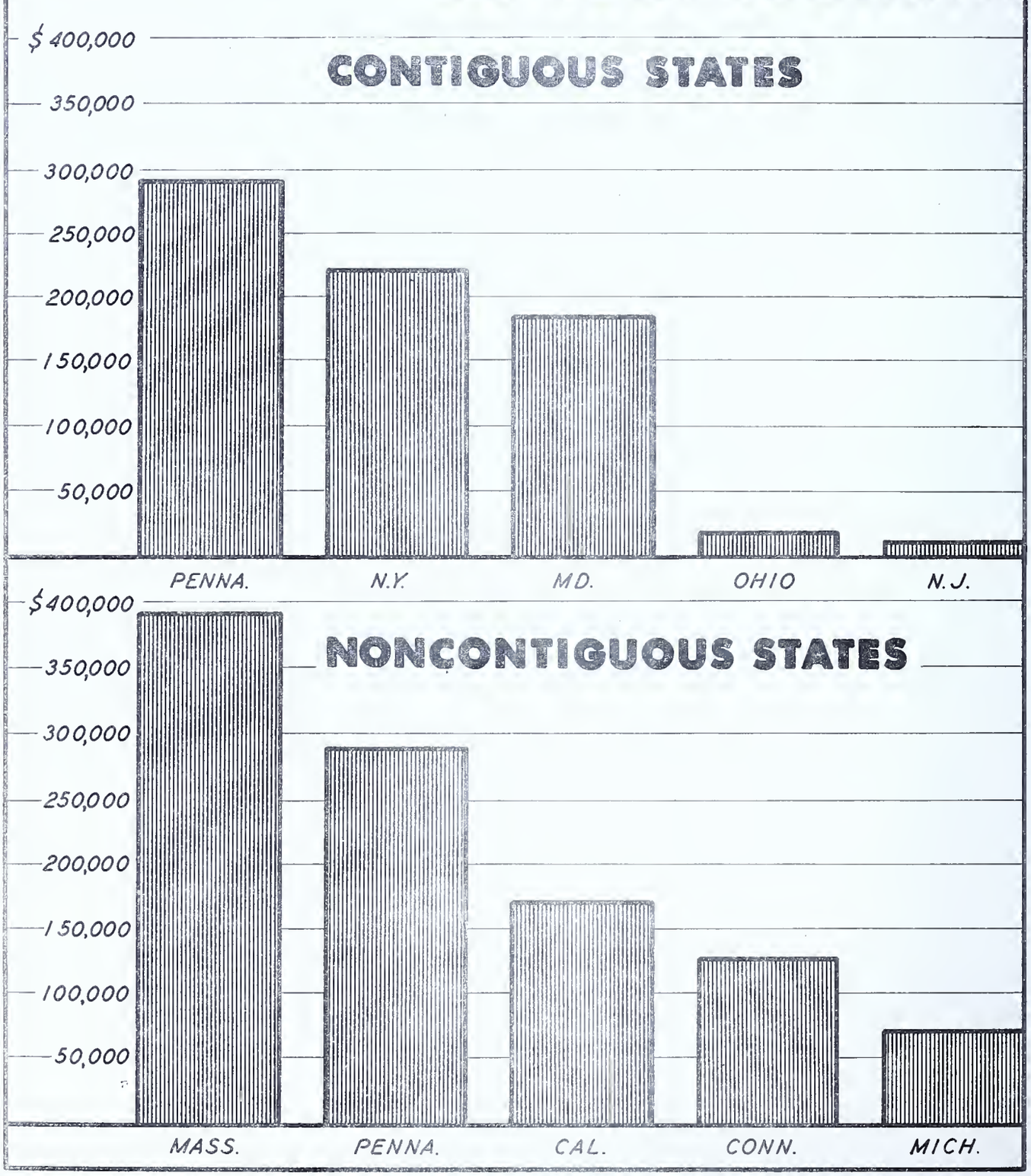


Table 53

STATE TAXES PAYABLE FOR 1951 BY 40 CORPORATIONS

Pennsylvania and Contiguous States	Total for all Companies	Rank of States
PENNSYLVANIA	$289,595	1
New York	221,582	2
Maryland	185,329	3
Ohio	16,383	4
New Jersey	12,894	5

Pennsylvania and States Not Contiguous	Total for all Companies	Rank of States
Massachusetts	$384,521	1
PENNSYLVANIA	289,595	2
California	172,405	3
Connecticut	130,167	4
Michigan	71,152	5

CHART 17

TAXES PAID BY FIFTY-FOUR CORPORATIONS

TOTAL STATE AND LOCAL TAXES AS PERCENTAGES OF TOTAL NET INVESTMENT, IN 1951

USING MEDIAN COMPANY FOR STATE & LOCAL TAXES IN EACH STATE

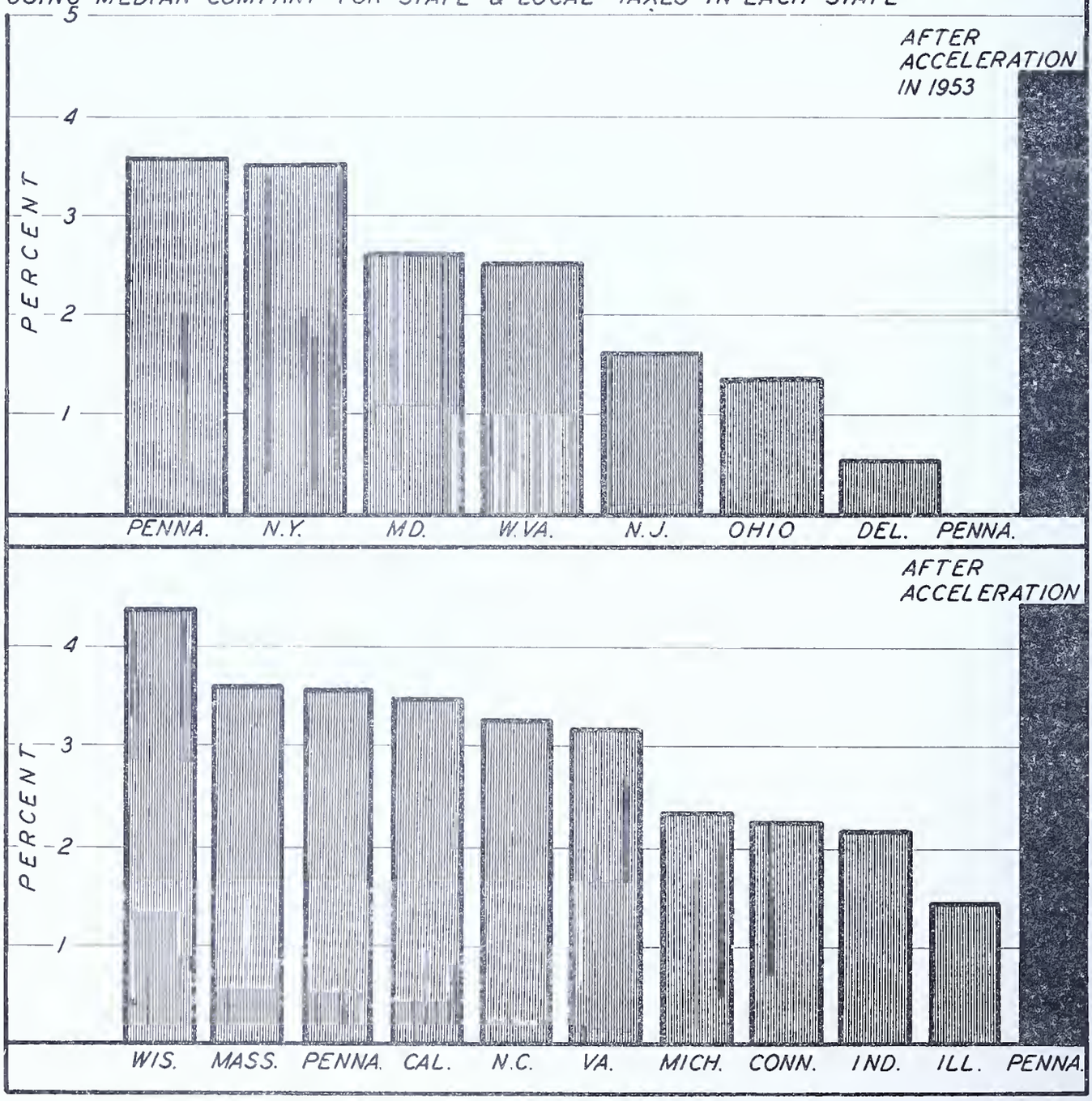


Table 54

ANALYSIS NO. II--FIFTY-FOUR CORPORATIONS

Total State and Local Taxes for 1951 as Percentages of Total Net Investment
Using Median Company for State and Local Taxes in Each State

Pennsylvania and Contiguous States

State	Local Taxes	State Taxes	State and Local Taxes	Percent of Pennsylvania
PENNSYLVANIA	1.24%	2.31%	3.55%	100%
New York	1.22	2.27	3.49	98
Maryland	1.55	1.11	2.66	75
West Virginia	0.71	1.83	2.54	72
New Jersey	1.56	0.13	1.69	48
Ohio	1.30	0.05	1.35	38
Delaware	0.10	0.44	0.54	15

Pennsylvania and States Not Contiguous

State	Local Taxes	State Taxes	State and Local Taxes	Percent of Pennsylvania
Wisconsin	2.74%	1.54%	4.28%	121%
Massachusetts	1.52	2.04	3.56	100
PENNSYLVANIA	1.24	2.31	3.55	100
California	1.84	1.58	3.42	96
North Carolina	1.12	2.09	3.21	90
Virginia	1.61	1.54	3.15	89
Michigan	2.10	0.28	2.38	67
Connecticut	1.22	1.00	2.22	63
Indiana	1.67	0.45	2.12	60
Illinois	1.38	0.09	1.47	41

Massachusetts, like Pennsylvania, is a mature industrial state which is not growing so fast as many other states. It is also a state known widely, like Pennsylvania, for its high state corporation taxes. While the tax climate is not the only factor affecting industrial expansion, it may be an important one. Economic growth is certainly more likely where taxes are relatively low, other things being approximately the same. The state tax structure of Pennsylvania is obviously no inducement to the location of new industries or to the expansion of existing industries in the state.

Among our neighboring competitive states, New Jersey has a low rate capital stock tax but no corporate net income tax, as shown in Table 52. New York imposes only one of three alternative corporate taxes. Ohio taxes capital stock at only one mill and has no corporation income tax. Maryland taxes corporate income at only 4 per cent and capital stock at low rates. West Virginia does not tax corporate income and taxes capital stock at lower rates than Pennsylvania.

THE CORPORATE TAX BURDEN IN PENNSYLVANIA AND OTHER STATES

As a part of its 1953 study, the Tax Study Committee compared the state taxes paid in 1952 by forty small corporations in various industries in Pennsylvania with the taxes for which they would be liable in eight competing states. Among the contiguous states, it was found that the Pennsylvania state taxes were the highest, as shown in Table 53. The state taxes in Pennsylvania would rank next to those of Massachusetts when a comparison was made with taxes in several non-contiguous states.

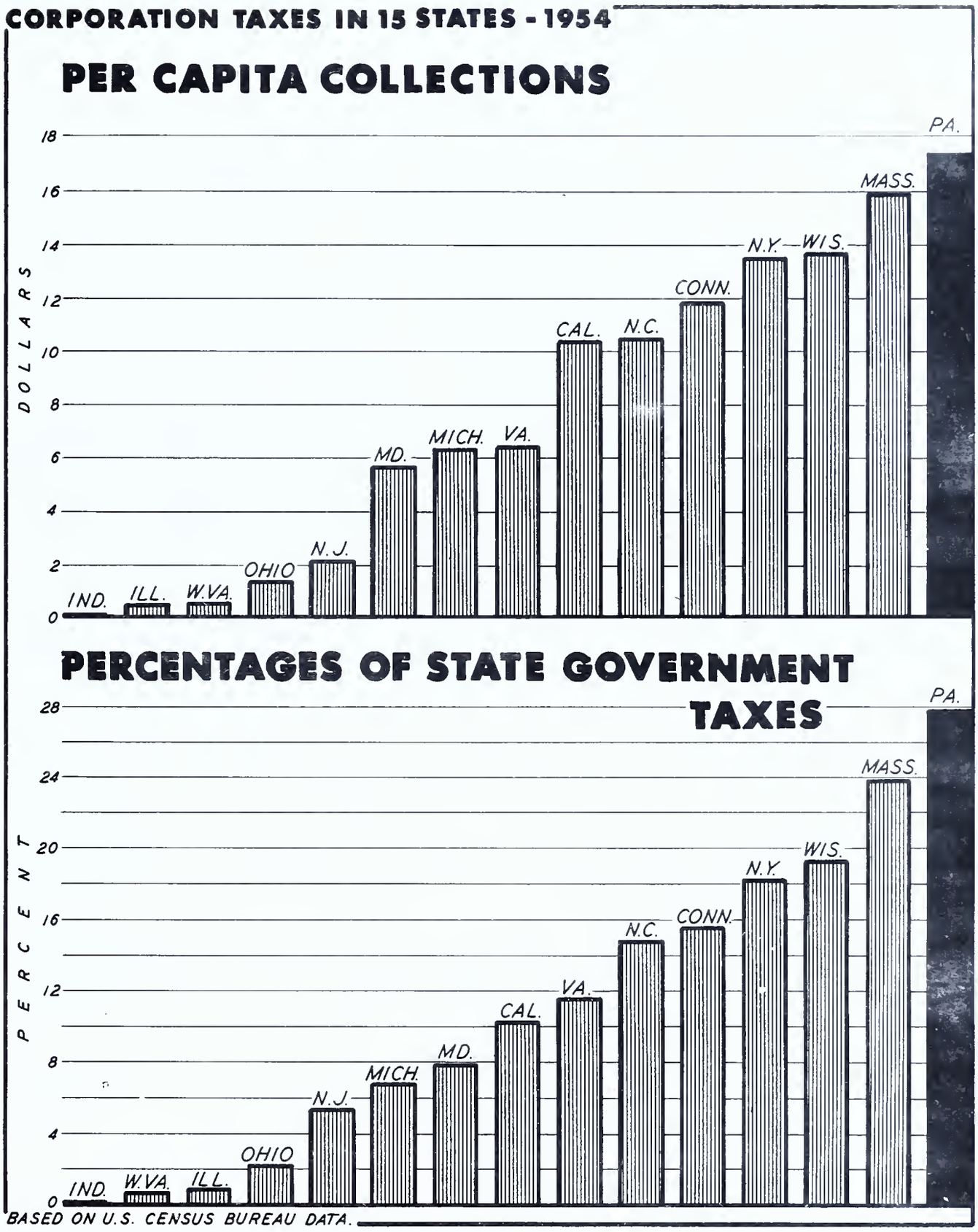
Another study was made by the Tax Study Committee of the state and local taxes paid by 54 corporations on 1951 operations in the 15 leading states whose finances have been compared in the present study. The corporations were predominantly manufacturing concerns. Their combined net investment in real and tangible personal property was valued at $4,874 million.

Various analyses of the total state and local taxes of these 54 corporations were undertaken. They all showed Pennsylvania state and local taxes higher in relation to the net investment than those of any of the contiguous states and near the top in comparison with those in the noncontiguous states. The results of one analysis are shown in Table 54 and illustrated in Chart 17.

The effect of the acceleration of corporate income tax payments in 1953 by raising the effective tax rate to 7.5 per cent was to raise the tax liabilities of these corporations on 1951 operations to a level in Pennsylvania exceeding the taxes for which they would be liable in any other in the group of 15 leading states.

In 1954, as shown in Chapter III, corporation taxes in Pennsylvania were higher in relation to population than in any other state in the group of 15 leading states. A higher percentage of total state government taxes was also collected from corporations in Pennsylvania than in any other leading state.

CHART 17-A


CORPORATION TAXES IN 15 STATES - 1954
PER CAPITA COLLECTIONS
DOLLARS
0
2
4
6
8
10
12
14
16
18
IND.
ILL.
W.VA.
OHIO
N.J.
MD.
MICH.
VA.
CAL.
N.C.
CONN.
N.Y.
WIS.
MASS.
PA.
PERCENTAGES OF STATE GOVERNMENT TAXES
PERCENT
0
4
8
12
16
20
24
28
IND.
W.VA.
ILL.
OHIO
N.J.
MICH.
MD.
CAL.
VA.
N.C.
CONN.
N.Y.
WIS.
MASS.
PA.
BASED ON U.S. CENSUS BUREAU DATA.

SHOULD ONLY ONE CORPORATION TAX BE REQUIRED IN PENNSYLVANIA?

It is frequently proposed in Pennsylvania that corporations should be required to pay either a tax on capital stock or net income, but not both. Requiring the payment of either the 5 mill capital stock tax or the 5.0 per cent corporate net income tax, whichever would be greater, would cause a considerable loss of revenue. This might be around $45 to $50 million a year, depending on economic conditions.

Such a revenue loss could hardly be suffered by the Commonwealth in this financial crisis. Some business men and tax students would prefer to pay a higher net income tax rate in order to place the corporate tax structure primarily on a net income basis. To require payment of the corporate net income tax or the capital stock tax, whichever is the higher, and to replace the revenues lost from a higher net income tax would apparently necessitate raising the corporate net income tax to about 7.0 per cent. This is another way of saying that the total Pennsylvania corporation taxes are now equivalent to approximately 7.0 per cent of the total corporation earnings in this state.

A net income tax varies with the profitability of a corporation and is not required in a year of no profit or loss. It is not such a deterrent to the birth of new enterprises and the growth of existing firms as a capital stock tax. It is also much more equitable. Finally, if all taxes were based normally on net income, the corporate net income tax rate would be a clear indication of the approximate relative burden of taxation in Pennsylvania and other states.

Following the experience of New York, California, and other states a minimum flat rate tax, say of $50, might be collected each year from all corporations whose net income or capital stock taxes would be smaller in amount.

TAXES ON CORPORATE CAPITAL DISREGARD ABILITY TO PAY

If taxes on corporate capital are not shifted, they remain with the stockholders, taxing them all at the same rate. Rich and poor are taxed uniformly without any exemption.

Or if the taxes are added to prices and passed on to consumers, they are, in effect, hidden taxes on them. In either event, the taxes disregard the income status of the individuals who must finally pay them, their economic responsibilities, and their ability to pay taxes.

The same conclusions apply, of course, to taxes on corporate earnings. But a net income tax has the advantage that it is paid only when net income is obtained.

Since business taxes are not adjusted to the abilities of the investors, consumers, workers, and others who must finally pay them or are otherwise affected by them, they should be as moderate as possible to minimize their inequities.

Also because the industry of the state must compete in the markets with the industries of other states, and the condition of the economy is ultimately determined by the level of productivity in the community, it is unwise to place heavy taxes on business activity which will place it at a competitive disadvantage.

Chapter VII

PENNSYLVANIA'S SPECIAL BUSINESS TAXES

Certain special business taxes supplement the general corporation taxes in Pennsylvania. The Tax Study Committee has not had the time or the resources needed to study these taxes carefully in detail and to compare the burdens of the special business taxes in Pennsylvania and other leading states. Each of these industries presents peculiar tax problems and an adequate analysis of them would require an extended study. Here it will only be possible to note the taxes imposed and the revenues obtained from them.

THE UTILITY TAXES

Pennsylvania taxes the intrastate gross receipts of utilities supplying transportation, communication, and electric energy services. The revenues derived from these and other principal business taxes in Pennsylvania for the fiscal years 1940 through 1954 are shown in Table 48. The relative expansion of revenues from these taxes in the period is indicated in Table 49. The percentages of General Fund revenues obtained from them are summarized in Table 50.

The utility gross receipts tax does not apply to gas production or gas pipelines but it does fall on oil pipelines. The tax rate is 14 mills for electric, rail transportation, and communication companies and 8 mills for motor carriers.

Utilities in Pennsylvania are exempt from local taxes on their operating properties and instead pay the state gross receipts tax. They are also subject to the corporate net income and capital stock taxes.

The methods of taxing utilities vary somewhat from state to state. Utilities in New York do not pay the corporate net income or alternative state taxes but instead pay taxes on their property and gross income. In Massachusetts they are taxed on their capital and other property but are exempt from the corporate net income tax. The New Jersey tax system relies on property and gross receipts taxes.

An advantage of the Pennsylvania method of taxing utilities is that it avoids the complicated problems of assessing their property and substitutes the simpler gross receipts tax. On the other hand, local governments receive no revenue from utilities and it is not known if the taxes the utilities do pay are equivalent to the taxes other industries pay on property of similar value.

The collections from the special state utility taxes in 15 selected states are shown in Table 55. The Pennsylvania gross receipts tax had a yield of $14.0 million in the fiscal year 1954.

It is frequently argued in Pennsylvania that if the utility gross receipts tax rate were increased, this would add to the costs of industry and also the living expenses of consumers. Others contend that the 14 mill tax rate is relatively low moderate and results in the lighter taxation of utility services than of manufactured products.

The exemption of the rail and pipeline transportation of natural and artificial gas from the utility tax gives gas a competitive advantage over electricity and oil. If the gross receipts from the sale of gas were taxed at a 14 mill rate, an estimated annual revenue of approximately $2.6 million would be obtained.

Table 55

SPECIAL STATE PUBLIC UTILITIES TAX COLLECTIONS

In Thousands-Fiscal Years

Excluding General Corporation Taxes

State	1941 (a)	1945 (b)	1951 (b)	1952 (b,c)	1954 (b,c)
United States, Total	$ 90,247	$128,564	$199,472	$228,151	$181,757
California	3,130	7,020	11,562	12,524	14,574
Connecticut	2,732	5,104	5,378	5,705	6,576
Illinois	11,743	15,066	25,704	27,425	31,513
Indiana (d)	.....	.....	.....	.....	.....
Maryland	.....	3,169	3,691	4,862	4,629
Massachusetts (e)	.....	.....	.....	.....	.....
Michigan (e)	.....	.....	.....	.....	.....
New Jersey (f)	.....	16	.....	.....	.....
New York	22,234	25,527	38,100	42,200	47,667
North Carolina	3,118	4,368	11,408	12,288	15,342
Ohio	9,846	13,680	19,105	23,250	26,762
PENNSYLVANIA	8,282	7,302	11,024	14,066	13,968
Virginia	3,801	7,129	10,432	11,442	14,181
West Virginia (g)	.....	.....	.....	.....	.....
Wisconsin	808	2,337	2,815	5,454	6,545

Source: U. S. Bureau of the Census.

(a) Data are for fiscal years. Data are only roughly comparable with collections in later years because of revisions in reporting by the Department of Commerce. Include all local shares of state-imposed taxes.
(b) Data are for Fiscal years ended in 12-month period ending June 30. Include only those local shares of state-imposed taxes which are not locally collected and retained.
(c) Preliminary.
(d) Utilities subject to general property taxes only.
(e) Special taxes on gross income of selected utilities are classified as business occupation taxes and listed by the U. S. Bureau of the Census under general sales and gross receipts. Utilities are also subject to state capital stock and intangible property taxes and local property taxes.
(f) Certain public utility franchise taxes and gross receipts taxes are levied by the state but are for local use and not shown here.
(g) Utilities pay capital stock and local property taxes only.

A problem here is that of the appropriate tax treatment of competing fuels. Should they all be taxed alike, including coal, or should coal and gas be exempt?

A number of states subject gas and oil pipelines to taxation. The tax rates on intrastate gross receipts are 0.8 per cent in New Jersey, 2.0 per cent in New York, and 3.5 per cent in West Virginia.

THE TAXATION OF BANKS

Another area of special business taxation involves the banks. In taxing banks the states are directly limited by Federal legislation concerning the taxation of national banks chartered by the Federal government. National banks cannot be taxed more heavily than state banks. Congress has provided that in addition to the ordinary real estate taxes, only of these alternative types of state taxation may be imposed on national banks:

1. A bank shares' tax
2. A net income tax
3. A franchise tax measured by net income
4. A personal income tax on bank dividends

Because of the competition between state chartered and national banks, the states tend to tax the former in the same manner as the latter. In Pennsylvania the problem is met by taxing bank shares annually at a rate of 4 mills, the tax rate imposed by the county taxes on personal property. Banks do not have to pay either the corporate net income or the capital stock tax in this state. Some of the states employ an alternative tax on net income, on franchise measured by net income, or dividends rather than a bank shares tax.

Bank tax revenues among the states are generally small. They amounted to only $6,054,000 in Pennsylvania in the fiscal year 1953, or 1.3 per cent of the General Fund revenues.

THE INSURANCE TAXES

Insurance companies also present peculiar tax problems. A gross premiums tax is commonly imposed. The rate of this tax in Pennsylvania is 2 per cent.

In Pennsylvania, all domestic insurance companies must pay the capital stock tax. Domestic stock companies must also pay the corporate net income tax, but they are allowed a 60 per cent credit against the gross premiums tax for the payment of the capital stock and corporate net income taxes. In some states insurance companies are exempt from these taxes.

The methods of insurance taxation vary somewhat from state to state. Retaliatory taxes are commonly imposed on companies chartered in other states if those states tax outside companies more heavily, even if a tax applies in the same manner to domestic corporations. If Pennsylvania increases its insurance taxes, therefore, other states may tax Pennsylvania companies more

Table 56

STATE INSURANCE COMPANIES GROSS PREMIUMS TAX COLLECTIONS
In Thousands; Fiscal Years-Excluding General Corporation Taxes

State	1941 (a)	1945 (b)	1951 (b)	1952 (b,c)	1954 (b,c)
Total, 48 States...	$ 97,755	$130,794	$254,001	$283,750	$351,031
California	8,037	11,654	23,446	25,281	34,325
Connecticut	3,840	5,124	6,898	7,694	8,893
Illinois	5,398	8,616	16,121	17,666	20,546
Indiana	2,187	3,032	5,870	6,150	7,361
Maryland	1,504	2,387	4,133	4,581	5,733
Massachusetts.....	2,051	2,235	5,581	6,147	7,855
Michigan	4,230	5,172	10,779	12,088	14,629
New Jersey	4,029	5,205	8,768	9,750	12,203
New York	14,911	17,275	32,605	36,412	47,466
North Carolina	1,719	2,469	5,671	6,199	7,648
Ohio	7,012	8,254	13,012	16,514	20,026
PENNSYLVANIA	7,113	9,587(d)	16,976(d)	19,832(d)	21,597(d)
Virginia	1,940	2,652	5,462	6,231	7,527
West Virginia	919	1,149	2,536	2,722	3,097
Wisconsin	2,272	2,568	5,055	5,902	6,876

Sources: U. S. Department of Commerce and State Budget Bureau.

(a) Data are for fiscal years ended in the calendar year; data are only roughly comparable with collections in later years because of revisions in reporting by the Department of Commerce. Include all local shares of state-imposed taxes.

(b) Data are for fiscal years. Include only those local shares of state-imposed taxes which are not locally collected and retained.

(c) Preliminary.

(d) Amounts returnable to local governments were $1.1 million in 1945, $6.6 million in 1951, $7.6 million in 1952, and $7.5 million in 1954. No distributions to local governments were made in 1941.

heavily than their own or other foreign companies.

The revenue obtained in recent years from the state gross premiums taxes on insurance companies by the group of 15 selected states are shown on Table 56. In the fiscal year 1954, the Pennsylvania gross premiums tax provided $21.5 million. Of this sum, $7.5 million were returned to local governments and $14.0 million were available for the General Fund. The latter sum was 3.0 per cent of the General Fund revenues. Among the 48 states, only New York and California obtained more revenue from this tax.

THE TAXATION OF COOPERATIVE CORPORATIONS

Complicated problems arise in the taxation of cooperative associations. In 1951 the Federal income tax was imposed upon funds placed in reserve by cooperatives. Those cooperative corporations which are taxed in Pennsylvania pay a 4 per cent net income tax instead of the general 5 per cent corporate net income tax. Their net income for taxation includes only dividends declared or paid on capital stock, but business corporations generally are taxed on undistributed, as well as distributed, net income.

As explained in the 1953 report of the Tax Study Committee, some cooperatives pay only the net income tax on dividends, others pay only a tax on capital, and still others pay neither tax.

It is sometimes proposed that Pennsylvania cooperative associations should be taxed on their gross income. A tax at a rate of 1 per cent on the gross receipts of cooperative associations separately reported would apparently yield approximately $1 million annually. A similar tax on other cooperatives would raise some additional revenue.

The purpose of any taxation of cooperative associations should only be that of taxing them to the same extent, in effect, that other business corporations are taxed.

CHAPTER VIII

FEDERAL AID AND STATE AND LOCAL TAX RELATIONSHIPS

There is considerable interdependence of functions and finances among the Federal, state, and local governments. In the fiscal year 1953, Pennsylvania received $106.9 million in Federal aid distributed in this manner: (In millions)

Old-Age Assistance	$ 21.2
Aid to Dependent Children	18.8
Highway Construction	19.8
Unemployment Compensation and Employment Service Administration	15.3
Schools (Current expenses and construction)	8.2
Other Services	23.6

General Fund revenues from Federal grants were $55.8 million in the fiscal year 1953, or 10.7 per cent of total General Fund revenues including Federal aid. Federal grants for General Fund purposes in the fiscal year 1954 were $60.9 million, or 11.5 per cent of total General Fund revenues, including Federal aid.

Federal highway aid is being greatly increased, but this does not enrich the General Fund because highways are separately financed. Federal grants for unemployment insurance and employment service administration are also earmarked for special purposes.

Federal aid for the current expenses of schools is relatively small, amounting to only $4.9 million in 1953, as compared with state expenditures of $159.5 million and local government expenditures of $219.8 million in Pennsylvania. This aid is showing no tendency to increase substantially. Federal aid is thus too small to solve the state's fiscal dilemma. (See the appendix for additional data on Federal aid.)

Federal aid is usually given with the condition that state and local governments must match the Federal money. Federal aid therefore stimulates increased state and local government spending and may cause total taxes to rise.

At any rate, Federal money is not free in the sense that the taxpayers will not have to contribute something into the Federal treasury to pay for it. Because Pennsylvania is one of the wealthier states, ranking 13th among the 48 states in income payments per capita, the Federal taxation-expenditure process tends to take more money out of the state than it returns in the financing of Federal aid. Pennsylvania can hardly expect the states with relatively lower economic and financial resources to relieve her of the higher taxes which will have to be paid, if public school and other state and local government expenditures continue to advance.

Table 57

REVENUES OF PENNSYLVANIA LOCAL GOVERNMENT

From Taxes and State Aid
1950 to 1954
(In thousands)

	1950	1951	1952	1953	1954
Grand Total	$619,707	$671,790	$723,691	$818,094	
Total Local Taxes	477,450	514,671	535,256	610,065	
Cities	151,569	162,728	171,773	247,042	Not
Boroughs	28,519	31,262	34,103	000,000	Avail-
Townships	19,127	20,366	24,023	26,489	able
School Districts	209,963	230,000(Est.)	233,899	262,143	
Counties	55,915	57,516	57,809	74,391	
Institution Districts	12,357	12,799	13,649	000,000	
Total State Aid	$142,257	$157,119	$188,435	$208,029	$233,218
Grants-In-Aid**					
Education	$112,174	$121,817	$151,049	$168,785	$189,919
Highways	10,017	10,002	10,478	13,791	14,992
Airports	554	395	1,616	715	2,499
Health	216	218	233	267	163
Post War Planning	105	190	25	53	51
Libraries	55	55	69	61	102
Port of Philadelphia	56	103	89	131	73
Sub-Total	$123,177	$132,780	$163,559	$183,803	$207,799
Local Shares of State Taxes					
Gasoline Tax	$ 10,580	$ 10,432	$ 11,384	$ 12,175	$ 12,792
Tax on Foreign Fire Insurance Premiums	1,962	4,542	2,455	2,721	2,769
Tax on Foreign Casualty Insurance Premiums	743	3,586	5,154	3,381	3,920
Liquor Licenses	5,795	5,779	5,883	5,949	5,938
Sub-Total	$ 19,080	$ 24,339	$ 24,876	$ 24,226	$ 25,419

Source: Tax Collection Data: Grants-In-Aid: From State Budget Bureau and Departments administering various programs. Local Tax data from U. S. Census Bureau; Total Local Tax figure for 1953 includes Boroughs and Institution Districts which are not listed separately.

Note: School district tax data are estimates based on approximately 80% complete information. Tax data for 1951 and 1952 are taken, in part, from annual financial reports, rather than tax collectors' reports.
*Tax collections are for calendar years, state aid for fiscal years.
**State funds only. Federal aid excluded.

STATE AID TO LOCAL GOVERNMENTS

Like the other states generally, Pennsylvania contributes much more to the local governments in grants and shares of state taxes than the amount of the Federal aid received. In the fiscal year 1954, the commonwealth furnished $207.8 million in grants to the local governments, as shown in Table 57. Of this sum, aid for education was $189.9 million. Local government shares of state tax collections amounted to $25.4 million.

State aid in Pennsylvania has been growing steadily, rising from $142.3 million in 1950 to $233.2 million in 1954. The greatest increase has been in aid for education.

State aid for education, health, and other services is supplemented by direct state expenditures to meet administrative costs and sometimes to provide additional services. In the fiscal year 1954 the total expenditures of the Department of Public Instruction were $256.6 million including grants to local governments of $189.9 millions, aid to State Teachers Colleges of $11.2 million, and additional expenditures for Pennsylvania State University, private institutions, and administrative expenses of the departments

Both state aid and direct state expenditures require increased state taxes. If more state money is to be spent for education, health, and other General Fund functions, state taxes must rise.

LOCAL GOVERNMENT RESPONSIBILITIES

In its 1953 report, The Tax Study Committee declared:

> Local governments should be responsible for those services which can be performed most effectively at the local level, such as police and fire protection. Some functions, such as education, health, through highways, and public welfare are of both state and local concern because they are maintained for the benefit of the whole state as well as that of the locality. In the state and local sharing of the costs of these services it is not always clear how much of the cost should fall to the local governments and how much to the state. A deciding factor will undoubtedly be the relative availability of local and state revenue resources.

The real estate tax is the primary source of local revenue in Pennsylvania, as in other states. It is a field which the Commonwealth has left to the exclusive use of local governments. Their independent tax revenues must be obtained from this source and such nonproperty taxes as are available.

If democracy is to thrive, local communities must be active in supplying those public services which they can adequately and equitably finance. The more dependent the local communities become on Federal and state action, the less direct control the people will have over government.

It is the responsibility of the local governments to bear as much of the cost of essential public services as their resources will equitably

permit. Experience has shown that the real estate tax must be supplemented by other revenues. On the other hand, it is a major source of revenue which local school districts can administer with reasonable success. If property taxes are not developed to a reasonable level to support necessary public services, income, sales, and other taxes must be utilized and increased to meeting the rising costs of government.

LOCAL SALES AND INCOME TAXES

The states have greater tax resources than the local governments since their resources include those of the local communities, except as the states avoid the levy of property and other taxes. Taxes on economic activity, such as the various sales and income taxes, can be imposed uniformly and can be administered more effectively at the state than at the local levels. Such taxes on a state wide basis will have less effect on local trade and industry than a great number of local taxes.

The larger cities are best situated, among local governments, to levy and administer taxes on economic activity. Even here, however, the restricted area of taxation entails disadvantages in comparison with the wider state area.

In developing new sources of local revenue, therefore, it should be kept in mind that the revenue needs of the states may require sales and income taxes, that if local taxes on economic activity multiply, serious conflicts, duplications, and inequalities may arise, particularly if the state enters the same field, and that if a great host of local taxes on economic activity spring up, it will finally be more convenient for the taxing governments and the taxpayers to replace these local taxes with a uniform state wide tax, from which funds will be made available for local government needs.

THE REAL ESTATE TAX

Property taxation has suffered from many abuses, but it can be administered to advantage by local governments if they have the will to do it and will apply modern assessment and other techniques. In Table 58, property tax collections at the state and local levels in the fiscal year 1953 in 15 leading states, including Pennsylvania, are shown.

Local property taxes in Pennsylvania in the fiscal year 1953 aggregated $470.6 million, a sum exceeded only in New York, California, Illinois, and New Jersey, listing the states in the order of the amount of tax collections.

Pennsylvania obtained 36.9 per cent of her total state and local tax revenues, including state liquor store profits, from local property taxes that year. We ranked 12th among the 15 selected states in this respect.

Table 58

PROPERTY TAX COLLECTIONS, 1953
COMPARED WITH TOTAL STATE AND LOCAL COLLECTIONS (In thousands)

State	State Property Tax Collections	Percent of Total State Tax[2] Collections	Local Property Tax Collections	Percent of Total Local Tax Collections	State & Local Property Tax Collections	Percent of Total State & Local[2] Tax Collections
United States, Total...	$364,917	3.4%	$9,010,394	87.0%	$9,375,311	44.3%
California.....	71,785	6.3	934,748	90.4	1,006,533	46.3
Connecticut.....	472	0.3	158,563	98.5	159,035	53.1
Illinois.....	427	(1)	632,221	89.8	632,648	51.9
Indiana	13,963	4.9	251,951	97.8	265,914	49.1
Maryland.....	3,337	2.0	127,329	89.2	130,666	42.4
Massachusetts.....	254	(1)	462,337	97.3	462,591	58.0
Michigan.....	31,507	5.0	410,628	97.6	442.135	42.1
New Jersey.....	3,088	1.6	486,547	90.1	489,635	67.2
New York	2,132	1.9	1,296,561	74.7	1,298,693	45.5
North Carolina.....	5,879	2.0	104,256	94.6	110,135	27.7
Ohio.....	19,738	3.8	441,118	91.2	460,856	45.9
PENNSYLVANIA.....	1,534	0.2	470,610	77.1	472,144	37.0
Virginia.....	10,776	5.2	99,317	78.4	110,093	33.1
West Virginia.....	288	0.2	41,674	84.4	41,962	22.9
Wisconsin.....	19,789	7.8	285,229	96.1	305,018	55.5

Source: U. S. Bureau of the Census, "State and Local Government Revenue in 1953".

(1) Less than 0.1%
[2] Liquor profits included

New Jersey obtained 66.7 per cent of the total state and local taxes from local property taxes, New York 45.4 per cent, Maryland 41.3 per cent, and Ohio 44.0 per cent.

Federal income tax rates have soared skyward. Distilled spirits are taxed at $10.50 a gallon by the Federal government and are subject to additional state taxes. Cigarettes in Pennsylvania are taxed 12 cents a package, 8 cents being the Federal tax and 4 cents the state. Gasoline users pay a 2 cent Federal tax and a 5 cent state tax, a total of 7 cents a gallon.

Property taxes, in general, are comparatively moderate in Pennsylvania, although they may be relatively high in particular localities and on particular properties. While property taxes have increased in recent years, they have increased less than other major taxes. With the great pressure on the state for ever higher public school subsidies and increased expenditures for other services financed with General Fund revenues, it is logical that local governments should examine their property and other tax resources with a view to developing them to reasonable levels.

If the state must impose commodity, corporation, income, inheritance, and other taxes to finance rising expenditures, those who own and those who rent property will not escape increased state taxes, even if these taxes fall upon them indirectly. It is a question of how the burden of taxes can most equitably be distributed in a manner conducive to maintaining employment, incomes, and levels of living, unless the citizens are willing to forego some of the services which the state and local governments are supplying and thus avoid increased taxes.

NEW LOCAL TAXES

Pennsylvania has apparently gone further than any other state in opening the doors to new local taxes. With certain exceptions, local governments may impose any taxes available to the state which it does not utilize. "Act 481" of 1947 and related legislation subsequently have been enacted to encourage Pennsylvania local governments to reach out into nonproperty tax sources both (1) to relieve property owners from as much of the increasing cost of government as possible and (2) to lessen the need for state aid and direct expenditures which will further increase state taxes.

Per capita, income, deed transfer, amusement, and other taxes have spread from locality to locality. On January 5, 1955 there were 2,724 local governments in Pennsylvania levying 3,528 nonproperty taxes under authority of "Act 481" which provided $38.2 million in revenue in the fiscal year 1952. The Philadelphia income tax, growing out of earlier legislation, is currently raising $50 million a year.

TAXING MACHINERY

Some local governments in Pennsylvania, particularly in Allegheny and Erie county, are taxing machinery and equipment as real estate. Manu-

Table 59

TABLE 1 - EXTENT OF USE OF ACT 481 BY ELIGIBLE LOCAL UNITS
AS OF JANUARY 5, 1955

Local Unit	Number Eligible Under Act 481	Number Levying One or More Taxes
2nd. Class City	1	1
2nd. Class A City	1	1
3rd. Class Cities	47	47
Boroughs	942	473
Townships 1st. Class	72	49
Townships 2nd. Class	1497	594
School Districts*	2459	1559
TOTAL	5019	2724

*Philadelphia and Pittsburgh School Districts Excluded.

TABLE 2 - NUMBER OF TAXES LEVIED UNDER ACT 481 BY LOCAL UNITS
AS OF JANUARY 5, 1955

Type of Tax	Cities	Boroughs	Townships 1st. Class	Townships 2nd. Class	School Districts	Total
Amusement	35	128	13	55	176	407
Business Privilege & Mercantile	22	21	1	-	19	63
Deed Transfer	3	36	25	45	209	318
Income	16	125	14	-	260	415
Mechanical Devices	10	91	8	-	33	142
Per Capita	6	258	5	480	1204	1953
Trailer Tax	1	13	4	79	68	165
Others	1*	18	2	2	42	65
TOTAL	94	690	72	661	2011	3528

*Personal Property Tax - City of Pittsburgh

Source: State Bureau of Municipal Affairs.

Table 60

TABLE 3 - RECEIPTS FROM TAXES LEVIED UNDER ACT 481 FOR

THE YEAR 1952(1)

Local Unit	Amusement	Deed Transfer	Income	Mechanical Devices	Mercantile & Business Privilege	Per Capita	Trailer Tax	Other	Total
2nd. Class City-Pgh.	$1,089,545				$3,037,514			$ 797,805 (2)	$ 4,924,864
2nd Class A City-Scranton			$ 652,704						$ 652,704
Third Class Cities	$1,327,719	$ 17,102	$ 3,579,830	$18,001	$1,656,796	$ 133,821	-	-	$ 6,733,269
Boroughs	$ 745,118	$ 289,699	$ 1,580,429	$51,561	$ 230,844	$ 1,238,030	$ 1,441	$ 68,417	$ 4,205,539
Townships 1st. Class	$ 116,790	$ 770,165	$ 36,298	$ 4,280	$ 132,386	$ 21,437	$ 310	$ 190	$ 1,081,856
Townships 2nd. Class	$ 32,383	$ 86,792	-	-	-	$ 542,555	$ 5,485	-	$ 667,215
TOTALS	$3,311,555	$1,163,758	$ 5,849,261	$73,842	$5,057,540	$ 1,935,843	$ 7,236	$ 866,412	$18,265,447
School Districts	$ 903,456	$2,945,155	$ 7,361,702	$ 3,933	$ 228,164	$ 8,137,735	$ 48,041	$ 303,054	$19,931,240
Grand Total	$4,215,011	$4,108,913	$13,210,963	$77,775	$5,285,704	$10,073,578	$ 55,277	$1,169,466	$38,196,687

(1) For School Districts, 1952-53
(2) Personal Property Tax - 1949 Amendment to Act 481 prohibits the levying of this tax by Local Units except by the City of Pittsburgh.

facturing corporations are raising objections to this practice, arguing that machinery and equipment, strictly speaking, are not real estate and should not be taxed as real estate.

It is difficult to determine the value of machinery and equipment for taxation because of the technical nature of such property and the need to assess it in relation to its use. Assessed values grow out of "negotiation", a process which does not operate uniformly and results in many inequalities. Discriminations are not only demoralizing, they may also penalize industrial expansion and act to the detriment of the community.

Pennsylvania does not have, as some other states do, a system of classified property taxation whereby various classes of property are established by state action and each class of taxable property is taxed at the particular rate which is found to be appropriate. Taxing machinery and equipment as real estate not only disregards differences between land and buildings, on the one hand, and machinery and equipment, on the other, but may tend to discourage the introduction and use of modern industrial facilities.

To prevent the spread of local taxes on machinery and equipment and to avoid the inequalities and uneconomical effects of such taxation, state legislation is apparently needed to provide for the exemption of such property from local taxation.

TAXING INTANGIBLES

In Pennsylvania, intangible property of certain types including stocks, bonds, and other securities, is subject to annual 4 mill county personal property taxes. Similar taxes are collected by the Philadelphia and Pittsburgh school districts.

As in other states, intangibles are difficult to locate for taxation and hard to assess when they are found. Tax students have commonly recommended that if intangibles are taxed, (1) they should be taxed by the state, rather than local governments, and (2) they should be taxed on their income rather than their value. A number of states without general income taxes, including Michigan and Ohio, have substituted a state income tax on intangibles for property taxes.

Intangible personal property is included in the property which determines the borrowing capacity of the counties. Removal of intangibles from the county property tax base would therefore reduce borrowing capacity. An increase in the county debt limit from the present 7 per cent of the value of real and personal property to 10 per cent of the value of real property would apparently provide a debt limit similar to but wonewhat larger than the existing limits.

If the state should impose a tax at a rate of 2 per cent on investment income from interest, dividends, royalties, and net rents received in Pennsylvania by non-residents and the total of such income by residents, an annual estimated revenue of $15 million could be raised. In the event that such a tax were levied, the local taxes on intangibles should be repealed and the local revenue loss should be restored by a share of the new state tax on investment income.

CHAPTER IX

THE STATE GENERAL SALES AND RECEIPTS TAXES

The term "Sales Tax" is variously employed to refer to taxes on particular commodities, such as the tax on sales of gasoline or cigarettes, or to taxes on commodities in general, sometimes including services. The taxes on commodities, and sometimes services, in general will be considered here to be "General Sales Taxes".

Legally, general sales taxes may be imposed upon vendors or upon purchasers. In the latter event, the vendor is held responsible for collecting the tax from vendee.

Legally, also, general sales taxes may be levied upon sales, gross receipts from sales, gross proceeds from sales, or gross income from sales.

Legally, furthermore, they may be designated sales taxes, gross receipts taxes, occupational taxes, license taxes, gross income taxes, consumer taxes, or otherwise.

As to the stage of economic activity where the general sales, or receipts, taxes may be applied, the 34 state taxes may be classified in this manner:

1-Twenty-five states, including Pennsylvania, confine their taxes to retailing.
2-Two states tax wholesaling as well as retailing.
3-One state taxes retailing, wholesaling, and manufacturing.
4-Six states extend their taxes beyond these stages to business activity in general.

It may be the purpose of the law to place the tax essentially upon individual transactions, as in Ohio and Pennsylvania, or upon the sum total of transactions as evidenced by aggregate sales, receipts, gross income, etc.

A general sales tax, by whatever name it is legally or otherwise known, may be imposed by state or local governments. Sometimes, as in California, both state and local governments may levy general sales taxes.

Pennsylvania has had experience with a state mercantile license tax collected from wholesalers and retailers for many years which was finally abolished on January 1, 1944, a temporary state retail sales tax in effect for six months in 1932, and the present state retail sales tax which became effective on September 1, 1953 and is to expire on August 31, 1955. Numerous mercentile license and business receipts taxes are also collected in Pennsylvania by local governments.

All of these taxes may be classified as general sales taxes. Tax authorities, indeed, apply the term "sales tax" to these taxes. See, for example, the Tax Foundation handbook, Facts and Figures on Government Finance, 1954-1955, pages 159-160 and 195-196, and Professors Robert M. Haig and Carl Shoup, The Sales Tax in the American States. In its recent report,

CHART 18

STATE TAX COLLECTIONS FROM MAJOR SOURCES, FISCAL YEAR 1953

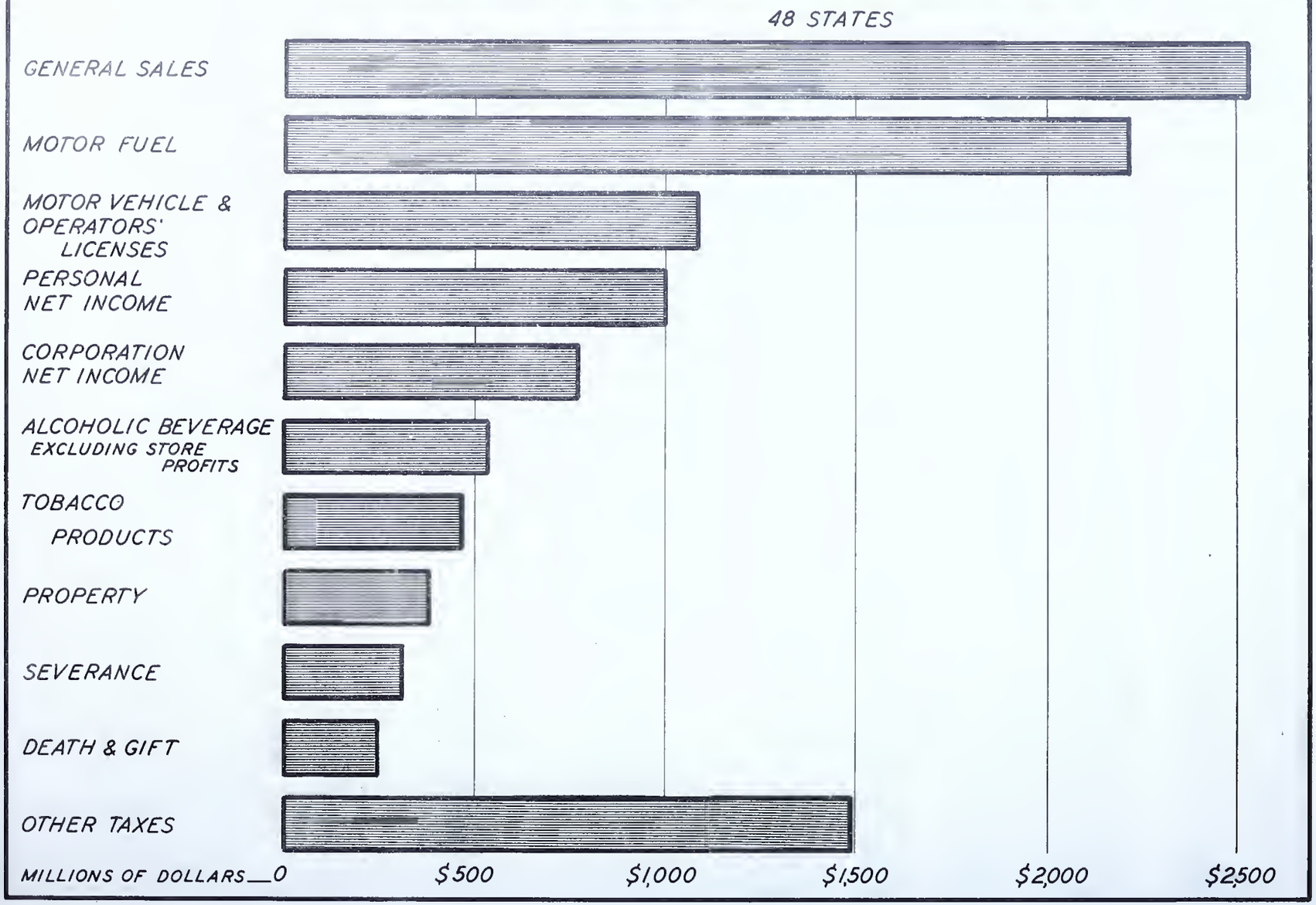


Table 61

STATE TAX COLLECTIONS FROM MAJOR SOURCES
Fiscal Year 1954 (In millions)
Excluding Unemployment Taxes

Tax	Number of States Using Tax	Collections	Percent of Total Taxes of 48 States
General Sales	32	$ 2,536	22.9%
Motor Fuel	48	2,224	20.1
Motor Vehicle and Operators Licenses	48	1,094	9.9
Personal Net Income	31	1,004	9.1
Corporate Net Income	33	772	7.0
Alcoholic Beverage (Excluding Store Profits)	48	542	4.9
Tobacco Products	41	464	4.2
Property	45	380	3.4
Severance	25	312	2.8
Death and Gift	47	247	2.2
Other Taxes	48	1,497	13.5
Total Taxes	48	$11,072	100.0

Source: U. S. Bureau of the Census, "State Tax Collections in 1954."

Overlapping Taxes in the United States, the U. S. Treasury Department designates the various state and local taxes described in this study as "General Sales Taxes". The U. S. Bureau of the Census denotes these various taxes as "General Sales and Receipts Taxes".

As this brief discussion indicates, there may be much confusion and misunderstanding in the use of the term "Sales Tax" or "General Sales Tax". Both the laws and the literature, as well as popular discussions, reveal many different uses of the terms.

As to the distinction between gross sales and gross receipts taxes, it may be noted that there is a tendency to include in gross sales the full selling prices of taxed commodities, even if they are sold on credit. Gross receipts and gross proceeds from sales, strictly speaking, include only the money actually received by vendors. Gross income may be interpreted by the taxing jurisdiction to be gross receipts from sales. It should be noted that these terms are variously employed by state and local governments, to the confusion of tax students and the public.

General sales taxes, by whatever name they are called, are commonly supplemented by taxes on the use, purchase, or storage of goods imported from other jurisdictions. They are sometimes called "compensating use taxes" because of the purpose to tax goods brought into the state or locality in the same manner as goods purchased directly in the markets of the taxing jurisdiction.

THE REVENUES FROM GENERAL SALES TAXES

Total state revenues from general sales or receipts taxes exceed those from any other source. These revenues were $2.5 billion in the fiscal year 1954, as indicated in Table 61. Collections from net income taxes were considerably less, amounting to $1.0 billion.

The state general sales taxes have been very productive revenues because of their broad base, which covers all retailing and sometimes wholesaling, manufacturing, and other lines of business. As the volume of trade expands with growing populations and rising incomes, tax collections automatically increase.

GENERAL SALES AND RECEIPTS TAXES ARE SHIFTED TO CONSUMERS

Economists appear to be in agreement that general commodity taxes, whether they are imposed as a liability of the vendor or purchaser, are commonly passed on to consumers in higher prices. The price increase may be indirect, as where the quantity or quality of the product at the prevailing price is lowered, or where services to consumers are curtailed.

These taxes have to be added to prices in some manner and generally passed on to consumers because, like wages and increased costs of materials and supplies, they must be recovered or profits will be so impaired as to discourage selling. Profits may even have to be sacrificed and losses endured. In other words, these taxes are necessary business costs

which must be paid by every firm, even those operating at a loss, and which in general must be recovered if the taxed enterprises are to remain in business.

This does not mean that such taxes are always shifted. Competitive conditions, fair trade laws, or other factors may at times prevent shifting. Even if the taxes are shifted, there may be some loss of sales and some reduction in profits because of the smaller volume sold. On the other hand, the tax collections will presumably be spent by the taxing government, and as they are released, the funds taken in taxes will return to the markets. Total buying and selling may be about the same, even if the trade in particular commodities is affected by the taxing-spending process.

Many of the states provide that their general sales taxes shall be added to prices and thus passed on to buyers. Such legislation is an encouragement to tax shifting. Other states may permit such shifting of the tax to consumers, even though the tax is legally an obligation of the vendor, as in Illinois, Indiana, Michigan and New Mexico.

SHIFTING OF MICHIGAN RECEIPTS TAX

In imposing a business receipts tax, a state may expect the tax to be passed on to consumers. Michigan, for example, has an occupational tax levied upon the gross receipts obtained from the sale of tangible personal property at retail. In a recent analysis of this tax, Professor Denzel Cline of Michigan State College declares, "The law imposes the tax upon the seller for the privilege of engaging in the business of making retail sales of tangible personal property . . . . Legally, therefore, it is not levied upon the consumer, but the economic burden, of course, is expected to be passed on as part of the prices paid for goods. The retailer must pay the full amount of tax due the state, regardless of whether it is collected from his customers. Although the tax is not collected on small sales (in most places those under 17 cents), the law does not exempt such sales and they must be included in the taxable gross receipts." (From his report, Pay the Piper, pages 41-42. Published by Governmental Research Bureau of Michigan State College, 1953.)

So far as the consumer is concerned, the Michigan and Pennsylvania retail taxes would appear to be fundamentally alike. Both are added to retail prices on the basis of a bracket system indicating the amount of tax on each price. Both taxes may be included by consumers in their deductions for Federal income tax purposes. There may be less shifting of the Michigan tax to consumers, but it is generally regarded as a tax to be collected from purchasers and is added to their bills. In effect, by state sanction and common action on the part of vendors, a gross receipts or sales tax legally imposed upon vendors may thus become a tax, in the economic sense, upon consumers.

THE FEATURES OF THE STATE TAXES

The features of the state general sales taxes vary considerably. Many of them tax utility services as well as tangible personal property.

Table 62

STATE GENERAL SALES TAXES IN 1953

	State	Type of Present Tax
1	Alabama	Gross Proceeds From Retail Sales
2	Arizona	Occupational, Gross Income
3	Arkansas	Gross Proceeds From Retail Sales
4	California	Gross Receipts From Retail Sales
5	Colorado	Retail Sales
6	Connecticut	Gross Receipts From Retail Sales
7	Delaware	Merchants' and Manufacturers' License (d)
8	Florida (a)	Retail Sales
9	Georgia	Retail Sales
10	Illinois	Occupational, Gross Receipts From Retail Sales
11	Indiana	Gross Income
12	Iowa	Gross Receipts From Retail Sales
13	Kansas	Gross Receipts From Retail Sales
14	Louisiana (b)	Retail Sales
15	Maine	Retail Sales
16	Maryland (c)	Retail Sales
17	Michigan	Occupational, Gross Receipts From Retail Sales
18	Mississippi	Occupational, Gross Income
19	Missouri	Retail Price Paid by Purchaser
20	New Mexico	Occupational, Gross Income and Gross Receipts
21	North Carolina	Occupational, Gross Sales of Wholesalers and Retailers
22	North Dakota	Gross Receipts From Retail Sales
23	Ohio	Retail Sales Price
24	Oklahoma	Gross Receipts From Retail Sales
25	PENNSYLVANIA	Retail Sales and Use Tax
26	Rhode Island	Retail Sales Price
27	South Carolina	Gross Proceeds From Retail Sales
28	South Dakota	Occupational, Gross Receipts From Retail Sales
29	Tennessee	Retail Sales
30	Utah	Retail Sales
31	Virginia	Merchants' License
32	Washington	Occupational, Gross Proceeds From Sales, and Gross Income, Retail Sales
33	West Virginia	Occupational, Gross Income, Gross Proceeds From Retail Sales Price
34	Wyoming	Retail Sales

Source: Tax Institute, Inc., Tax Policy, "Two Decades of State Sales Taxes," May, 1952 and Commerce Clearing House, Inc.

(a) Previous sales tax adopted in 1935.
(b) Previous sales tax adopted in 1936 and repealed in 1940.
(c) Previous sales tax adopted in 1935.
(d) For merchants, on aggregate cost of merchandise in excess of $5,000 plus a nominal fee. For manufacturers, $5 plus 1/40 of 1% of aggregate gross receipts.

Table 63

STATE GENERAL SALES TAXES IN 1954(1)
(In thousands)

State	Originally Adopted	Original Rate On Retailers	Current Rate On Retailers	Collections Fiscal Year 1954 (In thousands)
1 Alabama	1936	1-½	3	60,689
2 Arizona	1933	1-½	2 (2)	24,913
3 Arkansas	1935	2	2	29,094
4 California	1933	1-½	3	463,733
5 Colorada	1935	2	2	33,855
6 Connecticut	1947	3	2 (2)	53,773
7 Delaware	1852		1/10	- (3)
8 Florida	1949 (6)	3	3	65,889
9 Georgia	1951	3	3	102,676
10 Illinois	1933	2	2	208,557
11 Indiana	1933	½	5/8 (2)	139,174
12 Iowa	1934	2	2	61,825
13 Kansas	1937	2	2	46,680
14 Louisana	1936	2	2	63,459
15 Maine	1951	2	2	13,777
16 Maryland	1947 (6)	2	2	32,797
17 Michigan	1933	3	3	288,658
18 Mississippi	1930	¼	2 (2)	33,436
19 Missouri	1934	½	2	92,201
20 New Mexico	1933	2	2 (2)	27,566
21 North Carolina	1933	3	3	55,507
22 North Dakota	1935	2	2	12,770
23 Ohio	1935	3	3	188,293
24 Oklahoma	1933	1	2	43,493
25 PENNSYLVANIA	1953	1	1	37,012 (5)
26 Rhode Island	1947	1	2	13,649
27 South Carolina	1951	3	3	45,662
28 South Dakota	1933	1	2	12,145
29 Tennessee	1947	2	2	53,073
30 Utah	1933	3/4	2	17,985
31 Virginia	1843			- (4)
32 Washington	1933	½	3/10	138,050
	1935	2	3	
33 West Virginia	1921	1/5-2/5	½	66,798
	1934	2	2	
34 Wyoming	1935	2	2	8,767

Source: State & Local Tax Collections, 1954, Bureau of the Census Tax Foundation - "Facts & Figures on Government Finance" - 1954-55.

(1) Preliminary.
(2) Other rates apply to certain other businesses.
(3) Last revenue reported was year 1953 for back taxes only.
(4) Last revenue reported was year 1951 for back taxes only.
(5) Collection for 8 months only.
(6) Previous sales tax adopted in 1935.

Many of them also tax amusements. Some even tax periodicals. Food is commonly taxed. Clothing is taxed everywhere, except for children's clothing in Connecticut and of clothing, in general, in Pennsylvania. The nature of the state taxes, their rates on retailing, and the revenues provided are summarized in Table 67.

THE PENNSYLVANIA TAX AS A REVENUE

The Pennsylvania retail sales tax was adopted as a compromise measure in 1953 after long debate in the General Assembly over the most suitable source of substantial new revenues needed to support rising public school subsidies and other state expenditures. In the 1951 session of the General Assembly the proposal for a flat rate tax on personal income from wages, salaries, and other earnings suffered defeat after months of argument over methods of securing additional revenues. At that time, payments of the corporate income tax were accelerated and a state tax was imposed upon realty transfers at a rate of one per cent.

It was estimated in 1953 that the Pennsylvania retail sales tax would produce $135,000,000 in the period September 1, 1953 to May 31, 1955, the end of the 1953-1955 biennium. The revenue estimate has proved to be much too high, in view of the low tax rate and its exemptions of all food, clothing, and various other commodities. It is currently estimated that the tax will yield only $103.0 million in the present biennium. Collections for the 12 months ending November 30, 1954 were approximately $65.0 million.

THE BURDENS OF GENERAL SALES AND RECEIPTS TAXES ON CONSUMERS

It is the experience of the business community and the observation of economists that general sales and receipts taxes are very substantially shifted on to consumers in higher prices. However these taxes are imposed legally, in the economic sense they are essentially consumer taxes which must come out of the funds at the disposal of individuals and families. It is to be expected, however, that consumers will benefit considerably or very substantially from the government expenditures financed with general sales and receipts taxes. They may benefit from such services as public education or they may sell their services to the taxing governments as employees or otherwise, or they may supply materials, equipment, or otherwise benefit from government contracts.

Consumers pay general sales taxes in two ways, directly, as additions to the prices paid in the retail markets, and indirectly, as concealed charges arising from the added costs to manufacturers, whosesalers, retailers, and others resulting from the application of such taxes to business purchases.

In Pennsylvania, the retail sales tax directly paid by consumers is added to the prices they pay for commodities and is shown on sales slips. The tax indirectly paid is not known. It must, as a general proposition, be included in prices along with wages, costs of materials and supplies, and other costs also unknown to consumers.

The direct burdens of the retail sales tax on consumers are materially affected by the exemption of food, clothing, and certain other articles they buy. As shown in some detail in the 1953 report of the Tax Study Committee, the food exemption benefits the low income families and individuals the most because a relatively larger part of their budgets than of the upper income groups goes for food. The clothing exemption is of relatively less advantage to those with low incomes than those with higher incomes, since the ratio of clothing expenditures to incomes is lower among the lower income groups than among the higher.

To the extent that a general sales or receipts tax is imposed upon business purchases, it adds to business costs and indirectly to consumer prices. In this manner, food, clothing, and other articles will indirectly be taxed even though retail sales of these articles to consumers are exempt.

It may be pointed out that general sales taxes are not the only revenues which burden consumers. Taxes on alcoholic beverages, cigarettes, gasoline, amusements, utility services, and other articles also burden them. There are no exemptions from these taxes for the benefit of the lower income groups.

EXEMPTIONS AND TAX ADMINISTRATION

Administrative and compliance problems are increased by exempting food, clothing, and other commodities from general sales taxes. For that reason, many administrators would prefer to have taxes without any exemptions.

Some exemptions may be required, however, to make such taxes more equitable and acceptable to the citizens. The food exemptions, particularly, is in this category. Other exemptions, such as sales to the Federal government, may be required for legal reasons. Social considerations may require exemptions of sales to charitable, religious, educational, and other nonprofit institutions. The fact that alcohol, cigarettes, and gasoline are specially taxed may also seem to warrant their exemption. Some exemptions thus inevitably arise.

The more exemptions there are, the narrower the tax base is and the higher the tax rate will have to be to raise a certain amount of revenue. A reasonable balance of administrative, social, and revenue considerations should therefore be sought.

ADVANTAGES OF TAX AT RETAIL LEVEL

In its 1953 report the Tax Study Committee indicated at some length the advantages and disadvantages of the various types of general sales and gross receipts taxes.

A tax confined to retailing has the disadvantage that its base is narrower than a tax falling on whosesaling, manufacturing, and other business activity as well as retailing. A higher tax rate is therefore required to raise an equivalent amount of revenue.

The tax at the retail level is most visible, a fact which may arouse some opposition, on the other hand it may be collected openly and directly from purchasers and help the citizens to know what taxes they are paying for the public services they receive.

Exemptions are more easily provided at the retail, than at the wholesaling and manufacturing, levels. Food sales, for example, can be more readily separated here than at wholesaling and manufacturing points, some of which may be outside the state.

There is less pyramiding of a general sales or gross receipts tax if it is confined to retailing than if it is extended to other stages of economic activity. That is, it enters indirectly into business costs the least extent, with a minimum of tax accumulations through manufacturing, wholesaling and retailing.

The statute may require passing retail taxes on to purchasers by open additions to prices. This is not feasible in taxes on manufacturing and wholesaling because their prices are not known to consumers. Retailers generally prefer to have the law require the addition of a sales tax to prices. This places all vendors on equal terms and facilitates the shifting of the tax.

A further point is worth mentioning. Where the state law requires or permits a retail tax to be passed on to purchasers and the tax is openly added to retail prices, the consumer may list such taxes among the deductions permitted for Federal income taxation.

STATE VERSUS LOCAL GENERAL SALES TAXES

Pennsylvania now has sixty-two local business privilege and mercantile license taxes. The City of Philadelphia imposes a 3 mill gross receipts tax on many types of business and the Philadelphia school district also collects a 1 mill mercantile license tax. In Pittsburgh, the school district enforces a 1 mill gross receipts tax on retailing and a $\frac{1}{2}$ mill tax on wholesaling in addition to city taxes of 2 mills on retailing and 1 mill on wholesaling. These taxes supplement the state retail sales tax and are independently levied and administered.

California has gone even further in the levy of local sales tax. She now has approximately 200 of them, in addition to a state tax on retailing.

The Pennsylvania local gross receipts and mercantile license taxes do not exempt food, clothing, or other necessities of life. They are uniformly applied. The tax burdens are mitigated by the low rate, but the total tax collections are rather substantial, amounting to approximately $27 million a year, according to the Bureau of Municipal Affairs.

Local sales taxes are likely to be something of a hindrance, not a help, to local trade. If they are not shifted, they penalize the taxpayers who must absorb them out of profits or capital, and if they are shifted, they raise prices for consumers and to some extent discourage buy-

ing in the local markets.

As the number of local retail sales, gross receipts, and mercantile license taxes grows, the administrative and compliance problems also multiply. The point is finally approached where tax administration and compliance would be more convenient if a state-wide tax were imposed. More revenue should also be available from such a uniform state tax for local governments than from a great number of poorly enforced local levies which act to some extent as trade barriers.

The retirement of the Commonwealth from the retail sales tax field may be a signal to local governments to adopt more gross receipts and mercantile license taxes. If this is done, more and more taxation will be placed upon consumers purchasing in the retail markets without exemptions for food and other necessities.

THE REVENUE FROM A GENERAL SALES OR GROSS RECEIPTS TAX

The revenue which may be obtained from the present 1 per cent retail sales tax in Pennsylvania at current levels of economic activity and with the present enforcement, is approximately $65 million a year. Improved enforcement would, of course, increase the revenue flow. Removing exemptions would have a very substantial effect on receipts.

As previously indicated, Illinois and Michigan impose occupational taxes upon the gross receipts of retail sales, without exempting food and clothing. A tax of similar variety at a rate of 1 per cent would yield approximately $100 million annually in Pennsylvania, depending upon its coverage, economic conditions, and the effectiveness of enforcement. If a gross receipts tax, at appropriate rates, were extended to wholesaling, manufacturing, and other levels of business activity, additional revenue would be obtained.

Chapter X

A VALUE ADDED OR BUSINESS RECEIPTS TAX

In May, 1953, about the time that the General Assembly of Pennsylvania was adopting a retail sales tax as a means of raising substantial new revenues, the Legislature of Michigan enacted a so-called value added or business receipts tax. The revenue to be obtained from this tax at a general rate of 4 mills, or 0.4 per cent, was estimated at $35 million annually.

THE VALUE ADDED THEORY

A value added tax, in theory, would fall upon the additions to value created by each firm. This is a concept related to the U. S. Census Bureau annual statistics of value added in manufacturing. The idea is, to cite manufacturing as an example, that from the total receipts of a firm there would be deducted the total costs of materials, supplies, and other objects and services purchased from outside sources and the taxes paid by the firm.

The basis of the tax would thus be the net production of the firm, or the value it created by the efforts of employees, managers, investors, and others associated in the enterprise. The sum of these values over the nation would add up to the aggregate value of production. A national tax on value added in all types of economic activity--mining, manufacturing, farming, trade, finance, the professions, and so on--would thus be a tax on production.

The first proponent of the value added in this country seems to have been Professor Thomas S. Adams of Yale University. In 1921, while a tax adviser to the U. S. Treasury, Adams suggested that the complications and great difficulties of the recently enacted Federal personal and corporate net income taxes could be overcome by converting them into gross income taxes and by taxing manufacturers and merchants on the values they added in their business.

Congress was not receptive to the idea. Later, Adams proposed that a gross income tax should be employed as an optional tax instead of the personal income tax. Still later, Adams seems to have concluded that the income tax was practicable and would not be abandoned. In 1932, when Congress was seeking new revenue, he advocated a manufacturers' sales tax as an addition to the Federal revenues.

Since that time there have been a number of persons proposing the adoption of a national tax on value added. Some have advocated that all Federal income and other taxes on business be abandoned and that a value added tax be substituted.

The big argument for the tax is that it would not pyramid from vendor to vendor like a general tax on all levels of business activity, that it would avoid the complexities involved in determining net income for taxation, that it would fall upon wages and salaries as well as interest and profits, and that it would raise a lot of money at a fairly low rate.

WHY MICHIGAN ADOPTED THE TAX

The Michigan value added or business receipts tax grew out of an increasingly acute financial situation. An accumulated deficit was becoming larger as the state found it had committed itself to pay more money for public schools and other services than existing revenues would provide. A "one-shot tax" measure had been enacted to advance corporation income tax payments by one quarter to increase revenues during the fiscal year 1953. Instead of adopting a flat 1 per cent tax on personal and corporate income, the Legislature, in an election year, finally enacted a new business receipts tax, even though Michigan already had a tax on the gross receipts derived from sales of tangible personal property at retail. Many business men apparently preferred this tax to a corporation income tax and it was anticipated that it would be less objectionable to individuals than a personal income tax.

NOT REALLY A VALUE ADDED TAX

The Michigan tax is not really a value added tax. For one thing, it makes no allowance for depreciation of plant and equipment and thus violates the principle that only the net increase in value added should be taxed.

Secondly, all taxpayers are granted a $10,000 exemption. This was evidently provided to sugar coat the proposal by eliminating all very small concerns,even though they add a value to a product or service.

Thirdly, all taxpayers are allowed to deduct at least 50 per cent of their gross receipts to determine taxable receipts. If, however, their deduction for goods and services purchased from other firms would exceed 50 per cent of their gross receipts, they may take that deduction instead. This means, in effect, that every individual and firm in business, agriculture, a profession, or other taxable activity is certain of an exemption of at least $20,000.

Fourthly, 50 per cent of interstate sales of tangible personal property are arbitrarily allocated to Michigan in order to determine the taxable value.

A BUSINESS RECEIPTS TAX IN EFFECT

By allowing every taxpayer to deduct at least 50 per cent of his gross receipts in determining the taxable value, the Michigan law tends to make the tax a gross receipts tax for many firms. If the total gross receipts were taxed at a rate of 2 mills instead of taxing one-half of them at 4 mills, the tax resulting should be the same for many firms.

In a recent study of the Michigan tax, Mr. Peter A. Firmin declares, "The 50 per cent optional deduction is a departure from theory, but it obviously has a tremendous popular appeal. From the standpoint of principle, it should be lowered or eliminated, but this decision is primarily a matter of legislative intent.

Some provision should be made to take cognizance of capital expenditures. Preferably a deduction should be permitted for depreciation, depletion, obsolescence, and amortization costs." (The Michigan Business Receipts Tax, pages 143-144, Bureau of Business Research, University of Michigan.)

INEQUALITIES IN THE MICHIGAN TAX

A number of important inequalities are found in the Michigan business receipts tax. The rate is not a uniform 4 mill rate. Utilities are taxed at a rate of 1 mill.

Financial businesses do not pay the tax, although in theory they add values by providing services.

The exemption of $20,000, in effect, frees all small firms, farmers, professional people, and others who are productive and adding value by their activities.

Both the value added, even if correctly defined, and gross receipts disregard the rate of return on the investment of the taxpayers. Some firms may have a high profit ratio, others a low one. A true value added tax would hit concerns operating at a loss if their receipts exceeded the cost of goods and services purchased. The Michigan tax, by arbitrarily allowing 50 per cent of gross receipts to be deducted, tends to mitigate the burden but apparently does not necessarily remove it entirely from firms operating at a loss or at cost.

If the tax is not shifted to buyers, it rests unequally on the business concerns which must absorb it. In this respect it is inferior to a net income tax.

VALUE ADDED TAX BASED LARGELY ON WAGES & SALARIES

The basis of a value added tax is largely wages and salaries. This is necessarily the cost because materials, supplies, fuel and other articles and services purchased are exempt.

Mr. Firmin's study of the Michigan tax suggests that payrolls may typically represent 67.5 per cent of the taxable value added in manufacturing, 59.8 per cent in wholesaling, and 61.7 per cent in retailing.

THE CONSUMER IS INDIRECTLY TAXED

A value added or business receipts cost is an added cost which tends to be passed on to consumers in higher prices for food, fuel, clothing and other articles and services. Like other costs, it will tend to be shifted along in higher prices.

If $35 million a year in taxes are extracted from business on the basis of gross receipts and are subsequently shifted substantially

to consumers, their living costs have increased by the amount of taxes they pay. Successful business recovers its costs from its sales. The outcome is that successful business, at least, will recover a value added or business receipts tax from those who buy its products.

VALUE ADDED TAX INVOLVES COMPLICATIONS

Value added can perhaps be determined without great difficulty as a rule in manufacturing and merchandising. In agriculture the concept is difficult to apply and involves complexities similar to those involved in determining net income for taxation. It could be applied in service industries, professions, utilities, and financial institutions if the public would go along with the idea. It may become, in effect, a tax on wages and salaries in those industries where the value added is essentially the result of human effort and not substantially a return on the investment.

For a lawyer, a physician, an accountant, or anyone engaged primarily in providing services, a value added tax would be primarily a tax on wages and salaries.

The Michigan tax is openly a wide departure from a true value added tax. It is more of the nature of a business receipts tax, although it is not, strictly speaking, altogether a gross receipts tax. In some instances, the deductions will be more than one-half the gross receipts and will approximate value added, except that depreciation is not allowed.

A RETAIL SALES TAX WOULD TAX THE SUM OF VALUES ADDED

Those who have advocated value added taxes have stated that they propose to tax each value added to products and services along the line through production to final consumer. The end result is to be that when these values added are totaled, they will equal the value of the finished product in its final form.

If all the values added by each person to a pair of shoes from raw materials to the time the shoes were purchased at a retail store at a price of $10 were taxed as they arose, the values added should total $10. Why, then, go to all the trouble to tax each part of the value added through raw materials, manufacturing, transportation, financing, distribution, and on down to the ultimate consumer?

A tax on retail sales will reach final values more effectively and with fewer administrative and compliance complications than a tax on values added. This is not the same as saying that a tax on retailing hits only the final values of goods and services. It does enter to some extent into business costs and thus involves some duplication of taxes. But it has the advantage that it need be imposed only at one level, in the retail markets. It can also be made an open tax which the buyer knows he is paying, but the value added or business receipts tax paid by manufacturers and others will be concealed from the ultimate consumer.

A retail sales tax applies equally to goods brought into the state and goods produced within the state. A value added tax, however, would not apply to values created outside the state. It would thus penalize products produced and sold within the state in competition with goods produced outside the state.

MICHIGAN AND PENNSYLVANIA TAX ENVIRONMENTS COMPARED

The Michigan value added or business receipts tax was adopted in an emergency as a temporary measure. Michigan lacks a corporation income tax, to which there was considerable opposition. A tax on business receipts was apparently more acceptable to the Michigan business community than a corporate net income tax. It was also thought to be politically more palatable than a personal income tax.

The automobile industry is a major industry in Michigan. There the "Big Three" producers have their central plants. A tax in Michigan would appear to treat them with equality. They would seemingly be in about the same position in shifting the tax in Michigan and outside, to the extent that interstate sales are involved.

Pennsylvania, on the other hand, now has a 5 per cent corporation net income tax. We also have a 5 mill capital stock tax as compared with a 4 mill tax in Michigan. The state already taxes corporations more heavily than Michigan does at the state level.

Pennsylvania industries appear to be more diversified and less concentrated in one line. The effects of a tax of the Michigan variety would apparently be more unequal here than in Michigan.

An additional tax on manufacturing and wholesaling would add to the relatively high tax burdens already placed upon Pennsylvania business. It would increase their costs on sales in Pennsylvania and give price advantages to products brought in from other states.

CHAPTER XI

THE PERSONAL INCOME TAX

The retail sales tax is to expire on August 31, 1955. Pennsylvania is once again looking at the personal income tax as a possible source of the great new revenues needed to finance the schools and other public services. A graduated net income tax may not be imposed because of the uniformity requirement of the Pennsylvania constitution. Four times the electorate have rejected efforts to obtain a graduated net income tax. Proposed amendments to the constitution were defeated by the electorate in 1913, 1928 and 1937. The voters also turned thumbs down on a proposal in 1935 in the primary election to call a convention to consider constitutional amendments. That year, furthermore, the Supreme Court also rejected as unconstitutional a bill passed by the General Assembly in 1935 which called for a personal net income tax at rates graduated from 2 to 8 per cent.

Pennsylvania is not the only state which has refused to introduce an income tax in recent years. The last two state income taxes, those of Colorado and Maryland, were adopted in 1937. Since that time, nine states have adopted general sales taxes but no new state has turned to the income tax.

Apparently, a formidable obstacle to the introduction of new state income taxes is the high Federal tax on personal incomes. The steeply graduated Federal tax rates, rising from 20 per cent up to 91 per cent, act to discourage the addition of graduated state income taxes.

TYPES OF STATE INCOME TAXES

There are now 29 states imposing general personal net income taxes. The taxes rates are usually graduated according to the amount of net income. In Table 64 the minimum and maximum tax rates in 1954 are shown, along with the exemptions and the revenues. Total collections that year were $1.0 billion.

Massachusetts and Maryland graduate their taxes according to the source of income, taxing income from investments at a higher rate than wages and salaries.

The 29 states mentioned above impose net income taxes. Another state, Indiana, collects a flat rate gross income tax.

Four states, not in the group of 30 with some type of general personal taxes, tax intangibles on their income instead of their value.

INCOME TAX REVENUES

The states with general net income taxes secured approximately $1 billion from them in the fiscal year 1954. This was much less than the $2.5 billion raised in state general sales taxes and $2.2 billion in motor

Table 64

STATE GENERAL PERSONAL NET INCOME TAXES, 1954[a]

State	Originally Adopted	Collections Fiscal Year 1954* (In thousands)	Deduction for Federal Income Tax	Tax Rates	Personal Exemptions Single	Married	Dependent
Alabama	1933	$ 15,207	Yes	1½%-5%	$1,500	$3,000	$300
Arizona	1933	5,098	Yes	1 -4½	1,000(b)	2,000(b)	600(b)
Arkansas	1929	3,933	No	1 -5	2,500	3,500	600
California	1929	96,254	No	1 -6	2,000	3,500	400
Colorado	1937	12,867	Yes	1 -10	600	1,200	600
Delaware	1917	10,945	Partly	1 -6	1,200	600	600
Georgia	1929	13,053	Yes	1 -7	1,000	2,500	500
Idaho	1931	5,218	Yes	1½ -8	700	1,500	200
Iowa	1934	20,881	Yes	3/4-3 3/4	15(b)	30(b)	7.50(b)
Kansas	1933	11,537	Yes	1 -4	600	1,200	600
Kentucky	1936	20,493	Yes	2 -6	20(b)	40(b)	10(b)
Louisiana	1934	17,028	Yes	2 -6	2,500	5,000	400
Maryland	1937	28,654	No	2 -5(d)	1,000	2,000	600
Massachusetts	1916(c)	71,539	Yes	1.845 -7.38(d)	2,000	4,500	400
Minnesota	1933	50,917	Yes	1 -10	10(b)	30(b)	10(b)
Mississippi	1912	5,297	No	2 -6	4,000	6,000	-
Missouri	1917	26,126	Yes	1 -4	1,200	2,400	400
Montana	1923	4,923	Yes	1 -4	1,000	2,000	300
New Mexico	1933	2,237	Yes	1 -4	1,500	2,500	200
New York	1919	351,067	No	2 -7	1,000	2,500	400
North Carolina	1921	38,832	No	3 -7	1,000	2,000	300
North Dakota	1919	2,612	Yes	1 -11	600	1,500	600
Oklahoma	1908	9,411	Yes	1 -6	1,000	2,000	500
Oregon	1930	41,523	Yes	2 -8	600	1,200	600
South Carolina	1922	12,504	Partly	2 -5	1,000	2,000	400
Utah	1931	5,658	Yes	1 -5	600	1,200	600
Vermont	1931	5,412	No	1½ -5½	500	1,000	500
Virginia	1843	39,282	No	2 -5	1,000	2,000	200
Wisconsin	1911	71,203	Partly	1 -8½	7(b)	14(b)	7(b)

Sources of Data: Tax Institute, Inc., "Tax Policy," (May, 1935 and June, 1952); Commerce Clearing House, "State Tax Guide and Tax Review."

(a) Taxes on the income of intangibles were imposed in Michigan, New Hampshire, Ohio, and Tennessee in lieu of property taxes on intangibles.
(b) In this state a tax credit of the amount designated is allowed for single persons, married couples, and dependents, rather than an exemption of a certain amount of income. The tax is first computed without the benefit of tax credits and is subsequently adjusted to allow for them.
(c) The present classified type of income tax was adopted in 1916 after various taxes on income had been collected since colonial times.
(d) Tax rates depend on type of income, not the amount.
*Preliminary.

vehicle fuel taxes.

New York obtained $351 million from her net income tax. California, her nearest competitor, raised $96 million.

Pennsylvania is among the 6 states in the group of 15 whose finances are being compared which does not have either a net or gross income tax on individuals at the state level. On the other hand, nearly all of the local income taxes of the nation, or over 400 of them, are found in Pennsylvania.

As compared with the 30 states with some type of general personal income tax, there are now 34 with some types of general sales tax.

Twenty states levy both a general sales tax and a personal net income tax. In addition, Indiana collects her gross income tax from both business and individuals.

The continued rise in state government expenditures over the country points to the time, which may not be in the distant future, when nearly all of the states will have both a personal net income tax and a general sales tax to help defray the mounting costs of government services. The burdens of the taxes are somewhat different, having counterbalancing effects. The graduated net income tax is commonly regarded as being based upon ability to pay.

REVENUE FROM NONRESIDENTS

Both income and sales taxes permit a state to draw revenue from nonresidents, the former from their purchases in the state, the latter from their income derived inside the state. The costs of government are increased because of the services provided for nonresidents, and the states commonly tax their income. The tax may be withheld at the source of the income paid out in wages and salaries if the employer is located in the state. Other nonresidents may be difficult or impossible to reach.

DEDUCTIONS AND EXEMPTIONS

The net income taxes of the states are imposed upon income after allowable expenses and other items are deducted and after personal exemptions are taken by the taxpayers.

Usually a deduction is allowed for the Federal income tax. New York and eight other states do not permit this deduction. If the deduction is allowed, the revenue base of the state tax will vary with changes in the Federal tax rate and a higher state tax will be required to raise a given amount of revenue.

State and local income taxes may be deducted in determining the net income subject to Federal taxation. The value of this deduction is greatest for those in the highest income brackets paying the highest rates of tax.

The personal exemptions and credits for dependents vary among the states. The exemptions are usually higher and the credits for dependents are usually lower than the Federal. The exemptions are indicated in Table 64.

Most of the states allow an exemption of a certain amount of income, say $1,000 for a single person and $2,000 for a married couple. Wisconsin and four other states exempt a certain amount of tax. With the latter method, the taxpayer first computes his tax without the benefit of the exemption and then offsets his tax with the amount allowed. In Wisconsin, this is $7 for each person, that is, for the taxpayer, his wife, and each dependent.

An exemption of a stated amount of income benefits the upper income brackets more than the lower, reducing their taxes to a greater extent because they are paying higher tax rates. The exemption of a certain amount of tax, on the other hand, reduces the tax of all taxpayers with the same number of dependents by the same amount regardless of the size of their income.

ADVANTAGES OF FEDERAL BASIS OF TAXATION

There is a tendancy for the states to follow the Federal definition of net income for tax purposes, with such exceptions as may be necessary for constitutional or other reasons. If the Federal tax base can be followed rather closely, the computation of the state tax is easier for the taxpayer and is more readily checked by the state.

The states would raise more revenue from their taxes if they reduced their exemptions to the Federal level. On the other hand, if the Federal exemptions are automatically accepted, the base of the state tax and its revenue will change with revisions of the Federal exemptions.

Another point is worth keeping in mind. Much of the Federal income tax is withheld at the source of wage and salary payments. This facilitates collections and increases the revenues realized. Vermont has demonstrated that a state can withhold the income tax from residents as well as residents and has also helped bring sufficient pressure on Congress to induce the Federal government to withhold the Vermont income tax from Federal payrolls.

THE NEW YORK NET INCOME TAX

New York, as previously mentioned, obtains large revenues from her graduated net income tax on individuals. The basic tax rates are as follows:

2% on the first $1,000 of net income
3% on net income over $1,000 and not over $3,000
4% on net income over $3,000 and not over $5,000
5% on net income over $5,000 and not over $7,000
6% on net income over $7,000 and not over $9,000
7% on net income over $9,000

Table 65

PERSONAL INCOME TAX COLLECTIONS, IN NEW YORK STATE, CALENDAR YEARS 1935-1952
(Income Years 1934-1951)

Calendar Year	Financial Statistics			
	Number of Taxable Returns	Total Collections	Refunds	Net Collections
	(1)	(2)	(3)	(4)
1935	507,337	$ 56,149,044	$ 493,526	$ 55,655,518
1936	566,516	92,061,534	424,215	91,637,319
1937	632,959	129,078,085	561,764	128,516,321
1938	686,503	121,862,030	736,091	121,125,939
1939	675,863	100,253,818	846,524	99,407,294
1940	739,756	106,239,361	938,388	105,300,973
1941	861,738	119,042,140	953,397	118,088,743
1942	1,080,874	95,255,062	1,429,732	93,825,329
1943	1,219,785	93,478,562	719,225	[b]92,759,338
1944	1,694,926	127,903,478	1,490,120	126,413,358
1945	1,913,563	148,888,405	1,336,524	147,551,881
1946	1,943,828	122,791,768	2,135,957	120,655,811
1947	2,248,105	135,820,067	1,525,267	[d]134,294,800
1948	2,524,129	155,913,718	1,766,424	[d]154,147,294
1949	2,798,004	253,358,852	2,038 741	[d]251,320,111
1950	2,689,357	248,065,373	1,626,027	[d]246,439,346
1951	2,933,988	293,011,475	1,561,305	[d]291,450,170
1952	3,331,129	331,034,210	1,433,995	[d]329,600,215

[a]Approximate.
[b]1943 collection year does not include fourth installment of 1942 base period year, due to introduction of quarterly installments
[c]Represents localities' share of net receipts for first quarter due to substitution of per capita payments in lieu of shared taxes.
[d]Includes receipts to War Bonus Account as follows: 1947, $198,666; 1948, $23,334,547; 1949, $28,413,370; 1950, $27,382,150; 1951, $32,383,352; 1952, $36,622,246.

Source: New York State Department of Taxation and Finance.

These tax rates are subject to a 10 per cent reduction in 1954, as in recent years. An exemption of $1,000 is allowed for a single person and $2,500 for a married couple. The credit for dependents is $400.

The collections of the New York state personal net income tax in recent years are summarized in Table 65. Their great expansion after the Second World War is noteworthy. The major sources of income reported by the taxpayers for the year 1951 are shown in Table 67.

UNIFORM TAXATION NECESSARY IN PENNSYLVANIA

The Pennsylvania constitution declares in Article IX, Section 1:

> All taxes shall be uniform upon the same class of subjects, within the territorical limits of the authority levying the tax, and shall be levied and collected under the general laws.

As interpreted by our courts, this provision precludes exemptions and the graduation of tax rates according to the amount of income. Some constitutional authorities also maintain that the constitution prohibits the levy of a net income tax.

It may be argued, however, that different types of income could be taxed at different rates, even though gross income would have to be taxed. That is, income from wages and salaries could be taxed at one rate, say one per cent, and income from property could be taxed at another rate, say two per cent. This precedent is suggested by the examples of Massachusetts and certain other states.

It is sometimes proposed that Pennsylvania should impose a state income tax by adding a specified percentage, say 5 per cent, to the graduated Federal net income tax. Such an added tax would in effect, be a graduated net income tax. It would have the revenue disadvantage that state income tax collections would fluctuate with changes in the rates, exemptions, and other features of the Federal tax.

THE INDIANA GROSS INCOME TAX

Indiana imposes a gross receipts tax upon individuals as well as business which is known as a gross income tax. The part of the tax falling on business is commonly regarded as a general sales tax for which the vendor is liable. Resident individuals are taxed on their total gross incomes. Nonresidents are taxed only on their gross incomes obtained within Indiana.

Individuals are allowed an exemption of $1,000. This has the effect of graduating the tax rate in relation to total income. The tax rate of $1\frac{1}{4}$ per cent on a $5,000 gross income would, in effect, be $1\frac{1}{4}$ per cent of $4,000. On an income of $100,000, the tax would be $1\frac{1}{4}$ per cent of $99,000. In effect, then, the tax rate is graduated from zero on the first $1,000 of gross income up to nearly $1\frac{1}{4}$ per cent on the high incomes.

The amount of tax collected in the fiscal year 1954 is estimated

Table 66

NEW YORK STATE PERSONAL INCOME TAX, INCOME YEAR 1951

ALL TAXABLE RETURNS: ANALYSIS OF MAJOR ITEMS BY NET INCOME CLASS
(Dollar Data in Thousands)

Net Income Class	Number of Taxpayers	Number of Dependents	Net Income	Exemptions	Net Taxable Balance	Normal Tax	Capital Gains Tax Number	Capital Gains Tax Amount
Under $500	a41,648	14,847	$ 3,946	$ 174	$ 3,772	$ 69	a29,374	$ 2,764
$500- 999	24,140	2,762	18,535	1,764	16,770	302	2,148	100
1,000- 1,499	169,490	7,672	215,179	147,828	67,352	1,253	3,887	197
1,500- 1,999	232,192	20,355	408,893	222,915	185,978	3,446	3,785	80
2,000- 2,499	246,512	30,379	555,612	254,061	301,551	5,999	5,012	208
2,500- 2,999	359,232	71,908	991,508	579,940	411,568	8,794	7,774	262
3,000- 3,499	433,289	237,614	1,410,626	944,493	466,133	9,948	8,082	293
3,500- 3,999	423,264	380,610	1,583,438	1,055,669	527,770	11,234	9,922	200
4,000- 4,499	324,352	354,834	1,373,897	863,741	510,156	11,204	7,876	294
4,500- 4,999	227,488	269,424	1,077,740	621,136	456,604	10,527	7,775	295
5,000- 5,999	276,482	328,342	1,505,980	761,825	744,154	18,157	11,456	432
6,000- 6,999	142,180	184,628	916,304	398,686	517,619	13,703	7,468	280
7,000- 7,999	80,602	98,400	601,585	223,917	377,668	10,835	5,114	152
8,000- 8,999	52,883	64,755	447,577	146,351	301,226	9,326	3,888	122
9,000- 9,999	37,644	43,165	356,504	103,384	253,120	8,415	5,832	456
10,000- 14,999	94,829	115,902	1,139,234	257,383	881,851	34,689	16,273	1,495
15,000- 19,999	39,394	49,519	680,710	105,988	574,722	27,308	9,628	1,881
20,000- 24,999	19,625	25,670	440,102	54,312	385,790	19,891	3,689	744
25,000- 49,999	29,197	37,223	983,153	79,618	903,535	50,369	9,144	3,123
50,000- 99,999	7,925	7,108	526,921	20,014	506,907	30,034	2,811	1,695
100,000-499,999	1,636	1,325	264,535	3,815	260,720	16,059	921	2,087
500,000-999,999	36	17	24,424	66	24,357	1,526	20	253
1,000,000-and up	31	41	63,577	75	63,502	3,994	8	47
Grand Total	3,264,073	2,346,500	$15,589,980	$6,847,155	$8,742,824	$307,080	161,888	$17,461

a Includes 27,839 cases paying capital gains tax only, amounting to $2,680,625.

Source: New York State Department of Taxation and Finance.

Table 67

NEW YORK STATE PERSONAL INCOME TAX, INCOME YEAR, 1951

ALL TAXABLE RETURNS: ANALYSIS OF MAJOR ITEMS BY NET INCOME CLASS
(Dollar Data in Thousands)

Net Income Class	Source of Income: Wages		Interest and Dividends		Business and Trusts		Other		Total
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	
Under $500.....	7,978	$ 3,550	5,623	$ 2,060	1,330	$ -132	1,432	$ 1,503	$ 6,980
$500- 999.....	16,775	15,917	6,853	4,375	2,762	2,310	1,841	518	23,119
1,000- 1,499.....	144,941	219,434	32,220	19,624	14,934	15,583	17,491	9,193	263,834
1,500- 1,999.....	214,394	437,355	31,198	19,314	15,241	22,985	13,502	4,910	484,564
2,000- 2,499.....	231,476	597,844	38,460	21,775	14,013	22,984	13,195	4,622	647,226
2,500- 2,999.....	336,013	1,070,697	59,940	36,886	27,004	50,902	30,482	10,181	1,168,664
3,000- 3,499.....	403,933	1,520,355	74,875	36,258	39,994	97,131	42,449	11,897	1,665,643
3,500- 3,999.....	401,784	1,733,142	74,670	32,321	35,698	88,617	45,518	13,551	1,867,633
4,000- 4,499.....	305,020	1,482,711	64,543	30,858	33,039	98,139	34,471	11,959	1,623,668
4,500- 4,999.....	210,609	1,130,917	55,543	36,030	26,697	79,556	30,176	13,366	1,259,869
5,000- 5,999.....	254,900	1,549,848	81,318	50,349	31,607	130,880	34,880	17,663	1,748,740
6,000- 6,999.....	121,619	858,002	47,462	39,459	27,618	139,686	20,049	19,535	1,056,682
7,000- 7,999.....	66,896	530,597	33,857	36,665	18,412	106,754	12,684	14,811	688,827
8,000- 8,999.....	41,530	363,607	28,130	32,551	16,367	105,587	8,388	5,031	506,775
9,000- 9,999.....	28,743	274,692	19,437	31,622	12,685	89,371	6,343	11,819	407,503
10,000- 14,999.....	66,286	781,955	59,846	131,050	36,318	322,087	22,613	49,013	1,284,107
15,000- 19,999.....	26,192	408,258	27,833	110,580	16,577	212,802	10,131	29,045	760,686
20,000- 24,999.....	13,784	288,428	13,131	54,525	7,777	131,236	3,480	14,694	488,883
25,000- 49,999.....	19,663	534,682	22,896	185,555	13,522	302,100	8,508	59,571	1,081,907
50,000- 99,999.....	4,632	205,380	6,084	176,873	4,321	179,220	3,098	19,547	581,018
100,000-499,999.....	1,131	86,354	1,619	127,103	866	86,284	1,241	2,348	302,089
500,000-999,999.....	18	1,004	36	17,197	32	10,593	25	239	29,034
1,000,000-and up.....	18	611	31	42,806	27	32,377	21	762	76,556
Grand Total.....	2,918,335	$14,095,341	785,608	$1,275,836	396,838	$2,327,050	362,016	$325,778	$18,024,005

Source: New York State Department of Taxation and Finance.

to be $48.0 million.

Pennsylvania could not levy a tax of the Indiana type because exemptions here would be unconstitutional. Only a uniform, flat rate tax could be imposed, unless rates were differentiated according to the type of income. The revenue from a gross income tax is derived mainly from wages and salaries, as shown by the experience of Indiana. They are the big source of income, in the aggregate.

THE MULTIPLICATION OF LOCAL INCOME TAXES

A complicating factor in considering a state income tax as a new revenue is the fact that in Pennsylvania over 400 local governments, with state permission, are now collecting income taxes. The Philadelphia experiment paved the way for other cities and local governments to enter the income tax field after "Act 481" of 1947 authorized these taxes.

The local income taxes consist of two parts. First, a flat rate tax is levied on gross income from wages, salaries, and personal earnings. Second, a tax at the same rate is imposed on the net income of unincorporated businesses and professions.

The growing number of local income taxes is bringing Pennsylvania nearer to the stage where it will be advantageous both for the taxing governments and the taxpayers to have a state-wide uniform tax rather than hundreds or thousands of local income taxes. If a state income tax is adopted, provisions should be made for the revenue needs of the local governments, particularly the large cities, which are relying upon this source. The state could either permit the cities to add a rate to the state-wide tax or allow them to collect an additional tax independently.

A further question arises. If a flat rate income tax is thought to be inequitable and undesirable at the state level, should not such a local tax considered to be in the same category? Here again, as in the general sales or gross receipts tax area, there is need for consistency and harmony in state and local tax policies.

REVENUES FROM A STATE INCOME TAX

As the Tax Study Committee pointed out in its 1953 study, the revenue which could be obtained from a state income tax would be dependent upon the type of tax levied, its rates and other features, economic conditions, and the efficiency of enforcement. Some revenue estimates may be cited for illustrative purposes, based on current levels of economic activity.

1. A tax at a rate of 1 per cent of the gross incomes of individuals and the net income of unincorporated businesses and professions, $142 million a year.

2. A tax (a) at a rate of 1 per cent on the gross income of individuals from wages, salaries, commissions, and other payments for personal services, (b) at a rate of 1 per cent on the net income of unincorporated businesses and professions and (c) at a rate of 2 per cent on the income

from property and other investments, $157 million a year.

3. A tax at a rate of 7 per cent, computed on the basis of the graduated Federal net income tax, and thus a graduated tax in effect, $132 million a year.

4. A graduated net income tax similar to that of the State of New York, with rates graduated from 1.8 to 6.3 per cent, a $1,000 exemption for single persons and $2,500 for married couples, and a credit for dependents of $400, an estimated $145 million a year.

Chapter XII

SOME OTHER NEW STATE TAX SOURCES

In previous chapters the value added, or business receipts, tax adopted by Michigan in 1953 and the personal income taxes of New York and other States have been briefly described and appraised as state revenues. In this chapter, some other possible new state tax sources which might be employed in Pennsylvania will be noted. It is not the purpose of the Tax Study Committee to list all the possible sources of new state tax revenue which might be utilized, but rather to discuss the more important tax sources which state governments have found available and to illustrate the pertinent problems encountered in developing new state tax sources in Pennsylvania.

THE SOFT DRINK TAX

Pennsylvania imposed a tax on soft drinks from June 1, 1947 through May 31, 1951 at rates of 1 cent on each 12 fluid ounces of bottled soft drinks and 1/2 cent on each fluid ounce of syrups to be used in soft drinks. Collections in the succeeding fiscal years were:

1948	$13,353,458
1949	13,576,317
1950	14,537,058
1951	12,856,934
1952	589,597 (delinquent collections)

Other states have raised small revenues from soft drinks taxes through excises and licenses, as indicated in Table 68. The Federal government does not tax soft drinks.

The soft drink tax in Pennsylvania was the center of much controversy. It was opposed as a discriminatory measure which singled out soft drinks for taxation when candy and chewing gum were not taxed.

Only West Virginia, among our neighboring states, levies an excise tax on soft drinks. The license taxes of the other nearby states are nominal and not much revenue importance.

West Virginia taxes soft drinks at rates lower than those formerly imposed in Pennsylvania. They are 1 cent on each 16 fluid ounces and 80 cents on each gallon of syrups.

The relatively low value of soft drinks and the costs of transportation act to deter purchasing in other states as a means of avoiding or evading the tax.

It is estimated that Pennsylvania could obtain approximately $14 million annually by restoring the soft drink tax.

Table 68

REVENUES FROM SOFT DRINK TAXES
Fiscal Years 1945-1952

State	1945	1946	1947	1948	1949	1950	1951	1952
Alabama	$ 62,541	$ 46,621	$ 54,001	$ 73,386	$ 66,860	$ 62,685	$ 63,432	$ 71,996
Connecticut	7,682	6,041	4,780	5,421	4,960	5,963	5,680	5,620
Georgia	177,848	142,026	135,175	184,177	190,211	173,707	187,360	a52,944
Louisiana	1,192,613	1,145,347	1,380,152	1,871,406	1,001,702	971,136	1,054,840	978,257
Michigan	17,554	20,235	21,051	19,925	20,052	20,306	19,574	17,764
North Carolina	158,504	169,752	239,636	304,938	350,879	351,052	387,486	362,938
PENNSYLVANIA	.....	.....	.....	c13,353,458	c13,576,317	c14,537,058	c12,856,934	b589,597
South Carolina	3,401,158	3,094,165	3,567,646	4,123,323	4,234,866	4,272,001	4,273,018	4,792,108
Tennessee	381,483	381,237	300,913	417,363	451,557	257,598	274,420	248,540
West Virginia	.....	.....	.....	.....	.....	.....	.....	3,001,462

Source: Commerce Clearing House, Inc.
a. Tax on carbonic acid repealed, effective June 31, 1951.
b. Delinquent tax collections. Soft drink tax repealed, effective June 1, 1951.
c. Revised to include penalty and interest payments.

TAXING CIGARS AND TOBACCO

If the Commonwealth supplemented the cigarette tax with taxes on cigars, chewing tobacco, smoking tobacco, and snuff, additional revenue could be raised.

The Federal tax on the manufacture of cigars was the source of $20.3 million in collections in Pennsylvania in the fiscal year 1953. Other Federal tobacco taxes, aside from the cigarette tax, amounted to $0.2 million.

Cigars are subject to a Federal tax graduated from $2.50 per 1,000 for cigars retailing at not over 2 1/2 cents up to $20 per $1,000 for cigars retailing for over 20 cents each and weighing over 3 pounds per 1,000. The tax on lighter cigars is 75 cents per 1,000.

The Federal tax on other types of tobacco is 10 cents a pound. This has been decreasing in its yield, although the cigar tax collections have been maintained.

None of the states in the group of 15 whose finances are compared in this study has a separate tax on tobacco other than cigarettes. Among the nearby states, however, Delaware imposes a tax of $1.00 per 1,000 on cigars weighing more than 3 pounds per 1,000. Lighter cigars are taxed at a rate of $10.00 per 1,000 if the retail price is from 6 to 20 cents and at $20.00 per 1,000 if the price exceeds 20 cents. The revenue is small. There are 10 other states which also tax cigars. Ten states, not including Delaware, tax smoking tobacco, and several of these also tax chewing tobacco and snuff for small revenues.

If cigar taxes are very appreciable, they may be evaded or avoided by purchasing cigars in other states. The value of cigars may be high enough and the transportation costs low enough to invite out of the state purchasing.

It is difficult to estimate how much Pennsylvania could secure from a tax on the sale of cigars to consumers in the state, in view of the scarcity of data concerning the cigar tax collections in other states and cigar consumption in this state. If the consumption of cigars in Pennsylvania is at the average for the nation, a tax on them at the Federal rates would yield approximately $4.0 million annually.

AMUSEMENT TAXES

Amusements are taxed to some extent by excises and license taxes in 41 states. Collections from the excises, or sales taxes, were $11.3 million in the fiscal year 1954, in 31 states. The most revenue, or $2.0 million, was raised in New York. With a 5 per cent tax on the gross receipts of boxing and wrestling, Pennsylvania secured $40,000 in the fiscal year 1954.

The low rate amusement license taxes of 36 states returned total revenues of only $4.8 million in the fiscal year 1954. Pennsylvania license charge collections from athletic exhibitions were $16,000.

Table 69

PENNSYLVANIA LOCAL GOVERNMENTS TAXING AMUSEMENTS

UNITS	NUMBER ELIGIBLE UNDER ACT 481	NUMBER USING ACT 481
CITIES	49	35
BOROUGHS	942	131
TOWNSHIPS (1ST CLASS)	70	12
TOWNSHIPS (2ND CLASS)	1,500	36
SCHOOL DISTRICTS	2,488	166
TOTAL	5,049	380

Table 70

LOCAL AMUSEMENT TAX REVENUES IN PENNSYLVANIA, FISCAL YEAR 1952 *

UNITS	AMOUNT OF REVENUE DERIVED
PHILADELPHIA(under Sterling Act)	$2,997,547
PITTSBURGH	1,089,545
3RD CLASS CITIES	1,327,719
BOROUGHS	745,118
TOWNSHIPS (1ST CLASS)	116,790
TOWNSHIPS (2ND CLASS)	32,383
SCHOOL DISTRICT	903,456
TOTAL	$7,212,558

SOURCE:RECORDS FILED IN THE BUREAU OF MUNICIPAL AFFAIRS AND COMPILED BY MARIELLE HOBART,ASST. DIRECTOR

* SCHOOL DISTRICT REPORTS FOR THE YEAR 1952-1953

A state amusement tax was enforced in Pennsylvania from July 22, 1935 to July 21, 1937 at a rate of 1 cent for each 25 cents, or fraction thereof, paid for admissions to amusements. The revenues obtained were:

1936	$2,658,074	
1937	4,124,359	
1938	965,807	(Part of year)

The Federal tax on admissions is now levied at a rate of 1 cent for each 10 cents or major fraction thereof. It is supplemented by a tax at a rate of 10 per cent of ticket sales outside the box office on charges exceeding the regular price and on boxes, and by a tax of 50 per cent of the price exceeding the regular price on sales by proprietors. There is also a 20 per cent tax on club dues and initiation fees and a $10 tax on each bowling alley and pool table. These various taxes had a yield of $399.8 million in the fiscal year 1953. Revenues from the admissions taxes have been declining with the drop in attendance at the motion picture theaters.

The Federal collections of these various amusement taxes were $18.3 million in Pennsylvania in the fiscal year 1953. At a 10 per cent rate, a state tax should yield approximately $9.0 million annually if motion picture attendance and other types of amusements would not suffer substantially because of the tax. Approximately three-fourths of the Federal tax has been collected from the motion picture theaters. Hence, their patronage would be important in securing revenues from amusements.

Some persons believe that taxes on admissions should be left to the local governments. In Pennsylvania on January 5, 1955, there were 407 local governments taxing amusements at various rates, commonly 10 per cent. They raised revenues of $7.2 million, including $3.0 million collected in Philadelphia in the fiscal year 1952.

If the state entered the amusement tax field, there would be the problem of deciding what to do about the local taxes. It may be argued that if hundreds of local governments are going to tax amusements, it would be preferable to impose a uniform statewide tax and return part of the proceeds to the locality of origin. Another possibility would be that of permitting local governments to add a supplement to the state tax.

At any rate, the revenue involved is not great. With the rise of television and the decline of the movies, the opportunities for raising large revenues from amusement taxes are not very promising at this time.

PARI-MUTUEL AND OTHER RACING TAXES

A form of revenue not as yet exploited in Pennsylvania but which is now utilized by 23 states, sometimes for considerable revenues, is that derived from taxes on pari-mutuel betting at race tracks. The states secured $176.5 million from these taxes in the fiscal year 1954. New York led the states with revenues of $48.7 million. Additional revenues, amounting to approximately $11.0 million, were raised in local taxes on racing in New York. California followed with $22.0 million and New Jersey with $21.0 million. Smaller revenues were obtained by Delaware, Maryland, West Virginia, and Ohio.

Nine of the 15 states whose finances are being compared in this study tax pari-mutuel racing. All of the states surrounding Pennsylvania tax pari-mutuel betting. Their revenues from this source in the fiscal year 1954 are shown in Table 71.

The most common tax and the one raising the most revenue is that on the amount of bets, levied at flat or graduated rates. Some of our neighboring states impose flat rate taxes and some use graduated rates. The state tax rates range from 2 to 9 per cent, as shown in Table 72.

Admissions to race tracks are taxed in some states. In New York the state tax rate is 9 per cent, to which local rates are added. In Illinois it is 20 cents on each admission.

Regulatory licenses are required of race tracks in many states. The revenues raised are incidental to regulation.

The race tracks whose activities are taxed are privately owned and operated, under state regulation. The racing schedules in the various states are arranged in order to integrate them to advantage.

It would require some time, apparently a year or more, before race tracks could be placed in full scale operation. The taxation of legalized betting at race tracks could eventually provide annual estimated revenues in Pennsylvania of $20 to $25 million under favorable conditions. Administrative costs, as shown by the experience of other states, should not exceed 1 per cent of the tax collections.

Those who propose the taxation of pari-mutuel betting argue that the states around us are obtaining considerable revenue from the patrons of race tracks, many of whom come from Pennsylvania. Those who oppose it, contend that the legalization and taxation of betting would increase betting among those who cannot afford to bet, that it would attract money from the retail markets and other activities which are productive and desirable, and that more appropriate sources of revenue may be found in other tax areas.

PER CAPITA TAXES

Head taxes not many years ago were regarded as archaic and unprofitable sources of revenue. Recently, many local governments have been imposing per capita taxes in their quest for new revenues and under the authority of "Act 481" of 1947. On January 5, 1955, there were 1,953 Pennsylvania local governments imposing per capita taxes, of which approximately two-thirds were school districts.

Per capita taxes may not exceed $5 per capita among second class townships and $10 among other local governments in this state. Tax rates of $5 are common. Some $10 taxes are imposed, however. The total collections from local per capita taxes in the year 1952 were $10.1 million.

State and local governments generally have been turning away from poll taxes. Among the 48 states, only 9 reported poll tax revenues to the

CHART 19

REVENUES FROM PARI-MUTUEL TAXES FISCAL YEAR 1953

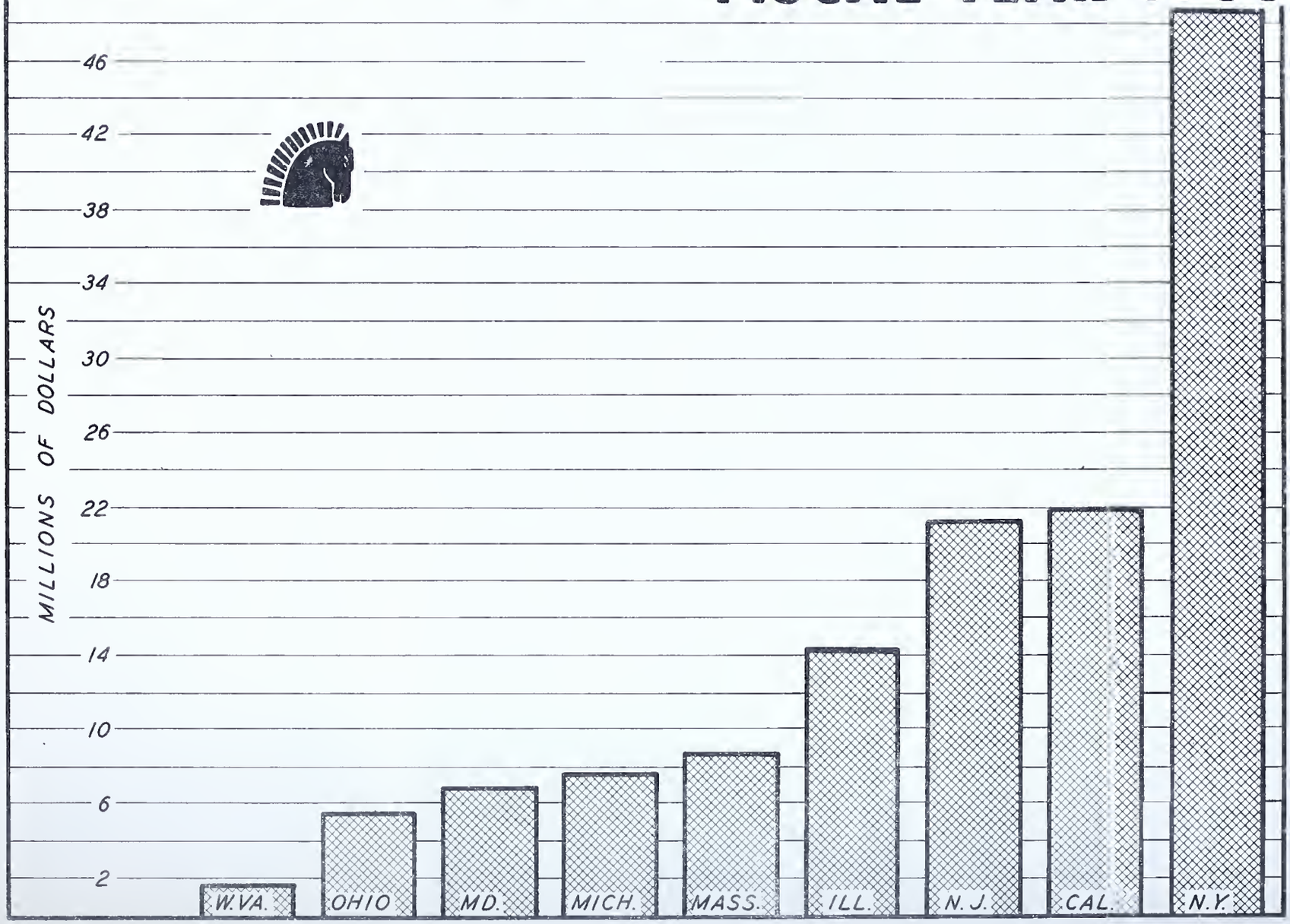


Table 71

REVENUES FROM PARI - MUTUEL TAXES
Fiscal Years 1950-1954
(In thousands)

State	1950 (1)	1951 (2)	1952 (2)	1953 (3)	1954 (3)
California	$14,855	$15,859	$19,209	$21,186	$21,997
Illinois	7,938	8,300	11,725	14,901	14,085
Maryland	4,569	4,613	5,984	6,194	6,837
Massachusetts	7,888	9,030	8,934	9,683	8,678
Michigan	3,385	3,652	4,709	5,430	7,681
New Jersey	11,706	12,206	15,611	18,663	21,026
New York	26,572	28,348	33,755	38,502	48,653
Ohio	527	690	1,364	2,690	5,541
West Virginia	800	720	1,316	1,688	1,747

Sources:
[1]U. S. Bureau of Census, "Sources of State Tax Revenue in 1950"
[2]U. S. Bureau of Census, "State Tax Collections" for 1951 and 1952
[3]Preliminary - The Tax Foundation, "Facts and Figures on Government Finance, 1954-55".

Table 72
STATE PARI-MUTUEL TAX RATES[a]
As of September 1, 1954

State	Tax Rate (b)		Breakage Amount	Breakage To State (Percent)
Arizona	4% on first $100,000 6% on over $100,000		$.10	-
Arkansas	5%		.10	33 1/3
California	4% on first $10 million 5% on next $10 million 6% on over $20 million	annually	.05	(c)
Colorado	5%		.10	-
Delaware	3.5%		.10	50
Florida	8% (d)		.05	100
Illinois	6%		.10	50
Kentucky	4% on first $18 million 6% on over $18 million (none at Keeneland)	annually	.10	-
Louisiana (e)	0% on first $ 30,000 2% on next $100,000 5% on next $ 50,000 6% on next $ 50,000 7% on over $230,000		.10	-
Maine	6%		.10	50
Maryland	4%		.10	50
Massachusetts	7%		.10	50
Michigan	6%; 4% outside city		.10	50
Nebraska	-		.10	-
Nevada	2%		.10	100
New Hampshire	5%		.10	50
New Jersey	6% on first $40 million 7% on over $40 million	annually	.10	100
New Mexico	5%		.05	-
New York	9%; 8% in Saratoga		.05	60 (f)
Ohio	2% on first $ 10,000 3% on next $ 40,000 4% on next $ 50,000 5% on next $300,000 6% on over $400,000		.10	50
Oregon	Option 1: 3% on first $ 66,000 4% on next $ 67,000 5% on next $ 67,000 6% on over $200,000 Option 11: 5% on first $133,000 6% on next $ 67,000 7% on over $200,000		.05	-
Rhode Island	7%		.10	50
South Dakota	3%		.10	-
Washington	5%		.05	-
West Virginia	3%		.10	-

(a) Applies to thoroughbred horseracing and may or may not apply to other forms of racing.
(b) Percent of total daily handle unless otherwise indicated.
(c) Total amount of breakage over $27 million annually.
(d) Tracks with average daily pool of less than $400,000 in preceding season may pay fixed fees graduated from $4,000 to $21,000.
(e) In cities under 350,000 population, 2% of first $150,000; 6% of next $50,000; 8% of all over $200,000.
(f) 50% in Saratoga.

Source: National Association of State Racing Commissioners and Commerce Clearing House

Bureau of the Census for the fiscal year 1954. Total collections of the state governments were $7,577,000. Texas raised the most revenue, or $1,560,000. Of the 15 selected states, only Indiana and Virginia collected poll taxes in 1954 and the revenues obtained were quite small.

It is estimated that a state per capita tax of $5 on persons of 21 years of age and older would yield approximately $25 million annually with effective enforcement. It could be withheld to advantage from employees by their employers.

Per capita taxes have been objected to because of their uniform application, regardless of the wealth and income of the taxpayers, and their ineffective enforcement. Those who do not object to such taxes may contend that if they are levied, they should be imposed by the state government.

Those who defend per capita taxes assert that those benefiting from government services should contribute toward their cost. It is argued that such taxes inculcate citizen interest in government and tend to keep government spending under better control.

A TAX ON MEALS

Massachusetts taxes meals selling for $1.00 or more at a rate of 5 per cent. Beverages are included as part of the meal. The meals tax provided $5.7 million in revenue in the fiscal year 1952. The exemption provides relief from the tax for those with modest incomes who buy inexpensive meals.

Perhaps Pennsylvania could raise $10 million annually from a similar tax. Food consumed in commercial eating places and at home is now exempt from the state sales tax, although it is commonly taxed by those states having general sales taxes. Ohio taxes food consumed in hotels, restaurants, and other commercial eating places.

A HOTEL TAX

New York City and some of the other larger cities impose sales taxes upon room rentals of hotels, motels, and other places renting rooms. The New York City tax falls at a rate of 5 per cent on room rentals of $2 or more per day.

Revenue from the New York City tax was $6.4 million in the fiscal year 1953. The hotel tax is thought to burden transients, to a large extent, because of the great tourist trade and the popularity of New York City as a business and amusement center.

With a similar tax, Pennsylvania could raise perhaps $3.5 million annually. There is no city comparable with New York in size in this state, with its vast hotel trade.

TAXING CONSUMERS'UTILITY BILLS

Proposals are sometimes advanced in Pennsylvania to tax the purchase of utility services by consumers. In New York, cities may tax utility services at a rate not over 3 per cent.

At the present time, Pennsylvania imposes a 14 mill tax on the gross receipts of certain utilities. Motor transportation is taxed at a rate of 8 mills, subject to important exemptions. The revenues from these taxes were $14.9 million in the fiscal year 1954.

The Federal government collected a tax at a rate of 3.5 per cent from domestic and commercial users of electricity for several years. It provided $7.5 million in Pennsylvania in the fiscal year 1951 before it was withdrawn. A similar tax in Pennsylvania should raise a somewhat larger amount, or $9.0 million. If gas were taxed at the same rate, revenues would increase by an estimated $5.0 million.

If the state should impose a tax on the consumers of utility services furnished by private companies, it would be only fair to place a similar tax upon those using utility services supplied by municipal utilities. This would furnish some additional revenue. Another problem arises in deciding upon the appropriate treatment of gas, oil, and coal when burned as fuel in the event that electricity is taxed.

Federal taxes at a rate of 10 per cent are now levied against telephone and telegraph charges. Higher taxes were in force before April 1, 1954. Collections of the Federal taxes in Pennsylvania in the fiscal year 1953 were $22.3 million.

The Federal taxes apply to both interstate and intrastate commerce. The states, however, can tax only intrastate communication. It is estimated that a state tax at a rate of 5 per cent on intrastate telephone and telegraph service would yield approximately $9 million annually.

Federal taxes are also imposed upon the transportation of persons and property. The tax rate on transporting persons was reduced from 15 to 10 per cent on April 1, 1954. In the fiscal year 1953, this tax had a yield of $24.1 million in Pennsylvania from interstate and intrastate commerce.

The transportation of property is subject to a Federal tax at a rate of 3 per cent, except that the transportation of coal is taxed at a rate of 4 cents a ton. The revenue from this tax in Pennsylvania in the fiscal year 1953 was $42.9 million.

A state tax on transportation could apply only to intrastate commerce. In view of the great popularity of the private automobile and its active competition with commercial transportation, additional state taxes of any weight on transportation, would seem to invite more diversion of traffic to private automobiles. A very low tax would be of little revenue significance.

The rates of the various utilities are regulated by government commissions. Unless rate-making policies changed, taxes on them

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would be regarded as costs to be included in the rates. To be shifted, the taxes would have to be added on to existing rates, which might involve a considerable period of time.

As utility taxes are added to rates or to consumer bills, they add to the costs of industry and individuals. Regulation in theory keeps the rates at reasonable levels in the public interest. There is thus the problem of maintaining consistency in rate regulation and tax policies.

A TAX ON UNINCORPORATED BUSINESS

A possible new source of revenue, a tax upon the net income of unincorporated businesses and professions, has frequently been proposed in Pennsylvania. Philadelphia and many local governments are now imposing such a tax in conjunction with their taxes on wages, salaries, and other personal earnings.

Corporations carrying on business in Pennsylvania must pay a tax on their capital at a 5 mill rate and a tax on their net income at a rate of 5 per cent. Unincorporated undertakings, which also enjoy beneficial state services, do not pay these or any similar taxes. It may be argued that if corporations should pay special taxes because the corporate form is advantageous, it will logically follow that proprietorships and partnerships should also pay special taxes because these forms of business organization also possess advantages.

Apparently unincorporated businesses, farms, and professions, enjoy an annual net income in Pennsylvania of approximately $3 billion. There are some 200,000 unincorporated business firms in the state and approximately 134,000 farms operated by full owners and 13,000 operated by part owners.

The taxation of the net income of unincorporated businesses and professions by numerous local governments indicates its practicability. This net income is also subject to taxation in those states which have general personal net income taxes.

New York supplements her net income tax on individuals with a separate tax on the net income of unincorporated businesses at a rate of 3 per cent. It is integrated with the personal income tax. An annual exemption and an additional salary allowance of 20 per cent of the net income, up to $5,000 free from tax, are granted. The tax does not apply to farmers and the major professions such as medicine, the law, accounting, and architecture.

The New York tax revenues have fluctuated from year to year and were $21.1 million in the fiscal year 1953. The number of unincorporated firms tends to increase when Federal corporation taxes are high and to decrease when they are moderated. The exemptions naturally reduce the yield.

Proposals in Pennsylvania to tax unincorporated businesses and professions have been opposed by those to whom the taxes would apply. Difficulties arise in the attempt to tax agriculture, business, and the professions because of the opposition of the numerous persons involved.

A serious difficulty is that of justifying a tax on those who conduct their own business or profession when those employed by others, whose earnings may be as large or larger, are exempt. It is sometimes suggested that allowances should be granted to cover essential salaries, interest, and other expenses so that those conducting their own enterprises would not pay taxes on income which would not be taxed if they were employed by other persons, loaned funds, or supplied services to others. The uniformity requirement in the Pennsylvania constitution may be an obstacle to such allowances, however, leaving the only alternative that of taxing net income.

Philadelphia is raising nearly $6.0 million annually from a tax at a rate of 1 1/4 per cent of the net income of unincorporated businesses and professions. This tax applies to total net income. It is estimated that a similar tax at a rate of 1 per cent would provide the Commonwealth with an annual revenue of approximately $20 million.

CHAPTER XIII

IMPROVEMENTS IN TAX ADMINISTRATION

The Department of Revenue of the Commonwealth of Pennsylvania is a vast agency collecting over $600 million in taxes a year. It administers taxes on alcoholic beverages, cigarettes, corporations, inheritances, motor vehicle fuel, motor vehicles, retail sales, and other objects. It is not essentially a tax policy agency, although the advice of the Secretary of Revenue may be sought on revenue measures.

Members of the General Assembly have felt that they did not have an agency at their disposal which could provide them with the statistics, legal information, summaries of tax laws in other states, and other data needed in planning and enacting tax legislation. The public has also had insufficient information about tax developments and problems in Pennsylvania to encourage the intelligent and effective citizen participation in the problems of government which is essential in a democracy.

The duties of the Secretary of Revenue have become very broad and complicated. Taxes do not administer themselves. Those imposed upon the net income and capital stock of corporations, the value of property transferred at death, and retail sales involve many complexities and extremely difficult problems of judgment.

The coordination of state and local tax structures is a perplexing and continuing problem. Local property taxes are among the most difficult of taxes to administer equitably and efficiently because of the inherent difficulties arising in assessing property for taxation and equalizing valuations within taxing jurisdictions.

The Commonwealth has extended to local governments broader taxing powers than they apparently have in any other state. Hundreds of local income, per capita, amusement, and other new local taxes have been imposed.

Little or no state help and supervision are given to local governments in the administration of their property and other taxes. The state and local governments have been taxing quite independently without recognizing the fundamental and limiting fact that they are competing for revenue from business and individuals and that ultimately they must draw their revenues from the taxable wealth, income, and consumer expenditures of the community.

State and local tax problems are becoming more, not less, difficult as state and local government expenditures rise. State and local functions must be financed in competition with a Federal government raising many billions of dollars in taxes from consumers, investors, workers, farmers, and other persons who are paying state and local taxes.

With a recognition of the great and growing complications and difficulties in state taxation, in relation to local and Federal taxes, and the need for the most modern, equitable, and efficient tax administration poss-

ible, the Tax Study Committee advances two suggestions. First, serious consideration should be given to the advantages in tax administration which might be attained by the establishment of a State Tax Commission. Secondly, the program of tax research, statistics, and reporting which has been initiated in the Division of Tax Research, Statistics, Methods in the Department of Revenue should be enlarged and placed upon a fully adequate basis in order to provide assential information to the Governor, the General Assembly, and the Citizens.

A STATE TAX COMMISSION COULD IMPROVE ADMINISTRATION

The experience of New York, Massachusetts, and other states demonstrates that a State Tax Commission could strengthen and improve state tax administration in Pennsylvania. No administrative organization in itself will assure fair and efficient tax administration. This must depend upon the purpose to provide such administration, the competence and adequacy of the administrative personnel, and the physical facilities available as well as the plan of administrative organization. But the most appropriate administrative organization is essential in achieving the most effective administration of state taxes.

Twenty-nine states have State Tax Commissions with more than one member. These commissions were originally organized largely in response to the needs of State and local governments to improve property taxation by administrative reforms in assessment, equalization, and enforcement. In three states the tax commission is concerned essentially with property taxation. In seven additional states the tax commission is concerned primarily with property taxation and nonproperty taxes imposed upon utilities. In nineteen states the commissions administer other taxes. These may be income, sales, gasoline, and cigarette taxes.

In a number of the states with tax commissions, as in Michigan, New York, Massachusetts, Maryland, and New Jersey, the commission supplements the work of the state tax department or its activities are integrated with it. Pennsylvania and other states without a tax commission rely upon a tax, finance, or revenue department with a tax assessor, revenue secretary, or other state official as its administrative head.

The Chairman of the State Tax Commission may be the administrative head of the tax department, as in New York and Massachusetts. In this manner, authority is located at the top in one man, the Chairman. The other members of the commission assist the Chairman in such administrative duties as are assigned to them. They are available to him in reaching decisions on questions of tax policy, in providing regulations, and in determining tax liabilities and other matters where their advice will be helpful.

New Jersey has an independent Commission on State Tax Policy, organized in 1945. It conducts studies of important state and local tax problems and offers constructive recommendations on basic tax questions.

PLAN OF ORGANIZATION OF A STATE TAX COMMISSION

It is the opinion of the Tax Study Committee that the possibilities of improving tax administration through a State Tax Commission warrant serious consideration of its establishment in Pennsylvania.

The Chairman of the State Tax Commission would be the Secretary of Revenue or other executive in charge of the administration of the Department of Revenue.

The Chairman and the other two members of the State Tax Commission would be appointed by the Governor, with the consent of the Senate. The Governor would designate the member who would be the Chairman.

Two members of the Commission would be appointed from the majority party, one from the minority.

The Chairman would be assisted by the other two members of the commission in such administrative and advisory duties as he would assign to them. They would also assist him in formulating policies, regulations, and administrative practices.

The members of the State Tax Commission would be appointed for six years, their terms to be staggered. Each Governor, consequently, would appoint two members of the Commission.

The staggering of the terms of office and the bipartisan nature of the State Tax Commission should provide for continuity of administration and encourage impartial and efficient administration of the taxes of the commonwealth.

The persons chosen for membership on the State Tax Commission should be competent in the field of taxation and fully qualified to perform honorably and efficiently the duties of their offices.

They should receive compensation commensurate with their great responsibilities.

FUNCTIONS OF TAX RESEARCH AND STATISTICS

In its preceding report the Tax Study Committee recommended that a Bureau of Tax Research and Statistics should be established in the Department of Revenue, with a competent and adequate staff and modern library facilities.

It was the opinion of the Tax Study Committee that the Bureau should exercise these functions:

1. Assembling and interpreting data required in revenue estimating.
2. Gathering and analyzing data dealing with economic trends in Pennsylvania and other leading states.

3. Studying the economic problems and effects of existing taxes.

4. Studying the administrative problems of existing taxes.

5. Studying the economic and administrative problems of potential new sources of revenue.

6. Studying the tax trends and problems in other states of importance to Pennsylvania.

7. Conducting special studies of interest to the Governor, the Department of Revenue, the General Assembly, and the public.

8. Studying state and local government tax relations.

9. Preparing monthly, quarterly, annual, and other tax reports.

10. Maintaining a reference library for the study of tax problems.

11. Maintaining files of pertinent and useful tax data.

12. Providing technical assistance to other state departments on tax questions involving economic and statistical problems.

13. Providing information for answering inquiries of taxpayers, public officials, and the citizens concerning relevant tax matters.

14. Engaging in such other research and statistical activities as would be helpful in the formulation of a tax system sound in practice as well as in theory.

AN ANNUAL TAX REPORT

The committee further proposed that an annual report should be prepared and published by the Department of Revenue, with the assistance of the Bureau, to make available such information as the following:

1. A summary of trends in tax collections.

2. The changes in tax legislation approved by the General Assembly and the Governor.

3. An explanation of the organization and operation of the Department of Revenue.

4. The names of the important tax personnel.

5. An analysis of current problems of tax administration and compliance.

6. An explanation of the major features of the state tax system.

7. Comparisons of taxes in Pennsylvania with those in other leading states.

8. Impact of state and local taxation on the economy.

9. Important developments in local as well as state taxation.

10. Other essential information of value and interest to the General Assembly, the Administration, and the public in understanding state tax problems and finding solutions for them.

TAX INFORMATION IS ESSENTIAL

Unlike other leading states, Pennsylvania does not prepare and issue an annual tax report and other special reports as they are needed.

The scarcity of tax information in the Commonwealth is one of the important factors contributing to a lack of citizen understanding of state fiscal needs and heated biennieal battles over the taxes which rising state expenditures require.

The Tax Study Committee again suggests the need for modern tax reports for the information of the citizens, the General Assembly, and the Governor.

DIVISION OF RESEARCH, STATISTICS, AND METHODS

In the summer of 1954, a Division of Research, and Statistics, and Methods was organized in the Revenue Department, with a small staff. Because of the crowded conditions in the Finance Building, adequate space could not immediately be provided. Some space was generously made available, however, by the State Board of Tax Equalization. Due to the limited space, library facilities could not be supplied.

THE NEED FOR A MODERN RESEARCH PROGRAM

It is encouraging that a beginning has been made in organizing the work in tax research and statistics in the Revenue Department.

A more adequate personnel and quarters are clearly needed for continuing growth and improvement in research, statistics, and reporting.

There should be space and equipment for a modern tax research unit, including a well equipped library.

The research program should be expanded along the lines suggested by the Tax Study Committee.

CHAPTER XIV

CONCLUDING OBSERVATIONS

In preparing this report, the bipartisan Tax Study Committee has been conscious of the huge tax problem with which the Commonwealth of Pennsylvania is confronted as a new Administration and a new General Assembly prepare to assume their great responsibilities. To the best of its ability, the Tax Study Committee has appraised the state tax problem objectively and in a nonpartisan manner. It has conscientiously sought the facts which characterize the Pennsylvania financial situation, the present tax system, and the taxes found to be available in other states. Throughout, in taking inventory of the present tax situation, it has endeavored to be guided by the principle, "Let the facts speak for themselves."

THE COST OF PENNSYLVANIA GOVERNMENT

Our study has revealed that while state and local government expenditures and taxes have been rising in Pennsylvania, the overall tax burden is moderate in comparison with that in other leading states. Certain taxes are already very high in this state, however, when they are compared with those in other states with competing economies. Pennsylvania ranks first among 15 leading states in the tax burdens placed on alcoholic beverages and corporations and near the top in the tax burdens on cigarettes and inheritances. Local property taxation, on the other hand, and speaking only of the general situation to which there are no doubt exceptions, is relatively low in Pennsylvania.

Our state debt structure is comparatively heavy, indicating that some tax liabilities have been deferred from the present to the future. There is always the danger in borrowing, and especially in state and local authority debt which is not subject to constitutional limitations as to its amount, that excessive expenditures will be incurred.

AVAILABLE TAX SOURCES LIMITED

The taxes available to the state for General Fund services which are both highly productive and reasonably equitable are limited in number. These comprise the taxes on personal and corporate incomes, taxes on alcoholic beverages, and general sales or receipts taxes. Lesser but important revenues may be raised from taxes on cigarettes, corporate capital, inheritances, insurance companies, pari-mutuel racing, and perhaps other sources under favorable conditions. The revenues obtained by the various states from taxes on amusements, unincorporated enterprises, legal documents, stock transfers, soft drinks, and other miscellaneous objects are generally quite small. Poll, or per capita, taxes are rather insignificant revenues in state tax systems. Federal aid for education and other General Fund services is a minor revenue.

The only large new source of revenue apparently available to Penn-

sylvania when the retail sales tax expires on August 31, 1955 is some type of broad-based tax. This would include under present constitutional restrictions, (1) a gross income tax on individuals or (2) a general sales, gross receipts, or gross income tax imposed on business. The latter could be confined to retailing or could be extended to other levels of business, such as wholesaling and manufacturing.

To complicate the situation, the Commonwealth has twice collected a retail sales tax, once for six months in 1932 and currently in the period September 1, 1953 to August 31, 1955, and is now looking to the expiration of the latter.

Four times a graduated net income tax on individuals has been rejected by the electorate. Proposals to amend the state constitution so that a graduated net income tax could be levied were voted down by the electorate in 1913, 1928, 1935 and 1937. Another attempt to introduce such a tax was made in 1935, when the General Assembly adopted a measure providing for a tax on personal incomes graduated from 2 to 8 per cent. The revenues from the tax were to go into the State School Fund. This tax was soon declared to be unconstitutional by the Supreme Court of Pennsylvania because it violated the uniformity requirement of the constitution.

An attempt to adopt a flat rate gross income tax was narrowly defeated in the General Assembly in the 1951 session.

Before Pennsylvania imposed the retail sales tax in 1953, state taxes were heavily concentrated on the available sources. The taxes on alcohol, cigarettes, inheritances, and corporations were advanced to exceptionally high levels, where they still remain.

Some minor new revenue sources, such as taxes on cigars, amusements, pari-mutuel racing, and other objects have been repeatedly proposed and rejected. A soft drink tax was adopted, and retained for a short period, and then allowed to expire.

THE CITIZENS AND THEIR TAXES

The Pennsylvania tax predicament is thus a most perplexing one. It is clear, however, that if the citizens want more state services they must pay higher taxes, except to the extent that economies in government can obviate increased tax burdens. Such economies, at most, can apparently not preclude the imposition of substantially higher state taxes unless state expenditures can otherwise be substantially reduced by restricting state services.

There is no perfect tax. There never was and probably never will be. People do not pay taxes because they like them. It is for this reason that taxes are constitutionally imposed as compulsory contributions for the support of public services. It is not only the duty, it is also the obligation of the citizens to pay for the costs of the government services provided.

But government is instituted for the people. They have the power, as the present Pennsylvania constitution declares, "To alter, reform, or abolish their government in such manner as they may think proper." (Article I, Section 2.)

The citizens must, in the last analysis, decide what services their governments shall provide, how much shall be expended upon those services, and whether the services are worth their cost. Unless the citizens of Pennsylvania now want to cut back government services and expenditures upon them, they must decide what new taxes shall be imposed to pay for the increasing costs of those services.

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